Supreme Court, U.S.
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No. ____

In The
Supreme Court of the United States

VIDEO PIPELINE, INC.,
Petitioner,

v.

BUENA VISTA HOME ENTERTAINMENT, INC. AND MIRAMAX FILM CORP.
Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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102 pp

QUESTION PRESENTED

Because copyright law ultimately serves the purpose of enriching the general public through access to creative works, it is important that the boundaries of copyright law be demarcated as clearly as possible. Fogerty v. Fantasy, Inc., 510 U.S. 517, 527 (1994).

"Fair use" is one of the most important guarantees of the public's right to use copyrighted materials. New digital audio-visual technology is creating uses of copyrighted images in ways that were previously impossible. That these uses are new technologically, however, does not render them either "fair" or "unfair."

Petitioner selected brief samples of full-length copyrighted audio-visual works that do not reveal the "heart" of the full-length works and, without the copyright owner's permission, incorporated them in a comprehensive interactive reference catalog, accessible via the Internet. Are the brief samples, as used in the reference catalog, a fair use under 17 U.S.C. § 107?

LIST OF PARTIES TO THE PROCEEDINGS AND CORPORATE DISCLOSURE STATEMENT

Petitioner Video Pipeline, Inc. was plaintiff, counterclaim-defendant, and appellant in the proceedings below.

Respondent Buena Vista Home Entertainment, Inc. was defendant, counterclaim-plaintiff, and appellee in the proceedings below. Respondent Miramax Film Corp. was counterclaim-plaintiff and appellee in the proceedings below.

In accordance with this Court's Rule 29, petitioner Video Pipeline states that it is a California corporation. No publicly held company owns 10 percent or more of Video Pipeline's stock.

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The court of appeals' opinion (App., *infra*, 1a -25a) is reported at 342 F.3d 191. The district court's opinion from which Video Pipeline appealed (App., *infra*, 26a-67a) is reported at 192 F. Supp. 321.[1]

JURISDICTION

The court of appeals filed its opinion and entered its judgment on August 26, 2003. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

17 U.S.C. § 106 states:

Exclusive rights in copyrighted works

Subject to sections 107 through 122, the owner of a copyright under this title has the exclusive rights to do and to authorize any of the following:
(1) to reproduce the copyrighted work in copies or phonorecords;
(2) to prepare derivative works based upon the copyrighted work;
(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial,

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[1] While the district court's decision was on appeal, the district court entered summary judgment in Respondents' favor as to some claims which overlapped issues on appeal. The court of appeals concluded that a live controversy remained. App. 5a-6a, n.3.

graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and
(6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

17 U.S.C. § 107 states:

Limitations on exclusive rights: Fair use

Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include--

(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;

(2) the nature of the copyrighted work;

(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

(4) the effect of the use upon the potential market for or value of the copyrighted work.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

STATEMENT OF THE CASE

Video Pipeline maintains a comprehensive guide to more than 15,000 movies and home videos from numerous companies, organized and indexed to enable people to search for, and watch, a specific preview via the Internet when they need information about a movie or home video. Video Pipeline made and incorporated 62 "clip previews" of Respondents' copyrighted home videos into its electronic guide, after Respondent refused Video Pipeline permission to use their traditional home video previews.[2] Each clip preview was less than two minutes in duration, and consisted of the Respondents' logo, followed by the title of the home video, one or two brief scenes from the first half of the full-length home video that did not "give away" the full-length video's ending or ruin other intended surprises, and the title of the home video again.[3] The court determined that the clip previews copied a relatively small amount of the original full-length films and did not reveal the "heart" of the full-length films.[4] The clip previews had no added voice-over, no editing, no additional music, and no narration, as compared to studio-made previews.[5]

After searching the index by title, actor, genre, year, etc., people access the previews (and clip previews) in Video Pipeline's electronic catalog by clicking on a button on their computer screen labeled "preview" for a particular motion picture; the requested preview is then "streamed" for the

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[2] App. 4a. A "preview," as the term is used in this petition, is a brief display of portions of movies or home videos, normally created by a movie studio, designed to entice sales by using techniques such as voice-over, narration, editing, and additional music. App. 2a, 5a. The court's decision often refers to previews as "trailers." App. 2a.

[3] App. 4a-5a, 15a.

[4] App. 15a.

[5] App.5a.

person to see.[6] Streamed previews can be viewed only, and cannot be downloaded to, or stored on, a computer.[7] No trace of the preview is left on a person's computer.[8]

Video Pipeline's guide combines a highly sophisticated computerized aggregation of materials with an interactive network requiring precise information to ensure that a person can easily request and see the proper preview material. Video Pipeline's electronic index of previews is accessible either through web sites operated by libraries and home video retailers lawfully selling or renting home videos, or directly through Video Pipeline's movie research web site, videodetective.com. Each of these enable the public to obtain information about movies and home videos by title, actor, scene, genre, etc.[9] When a person seeks information from the videodetective.com site about a home video, the site returns a list of responsive titles and information about them, allows the user to see requested previews, and provides a link to a retail seller of authorized full-length home videos.[10] Between November 2000 and April 2001, the clip previews were

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[6] App. 3a.

[7] App. 3a.

[8] In the digital era, the difference between streaming and downloading is critical. RealNetworks, Inc. v. Streambox, Inc., 2000 U.S. Dist. LEXIS 1889 at **3-4 (W.D. Wash. 2000). Streaming differs from downloading, a process by which a complete audio or video clip is delivered to and stored on a computer. Id.

[9] App. 3a - 4a. Since the proceedings below, Video Pipeline's internet catalog of previews is also used by the public library systems in Seattle, Washington and Denver, Colorado to promote the public's access to their video collections.

[10] App. 4a.

requested and streamed more than 30,000 times to the public.[11]

Because Video Pipeline's Internet guide provides people with some idea of a full-length home video's plot, tone, and leading characters, home video retailers integrate Video Pipeline's guide into their own web sites[12] to promote home video rentals and sales, and pay a fee to have the index and previews accessible from their web sites based on the number of megabytes shown to people.[13] Video Pipeline has had agreements to stream its indexed guide of previews with approximately 25 online retailers, including Yahoo!Shopping, Amazon's Internet Movie Database, Best Buy, and Netflix.[14]

The previews in Video Pipeline's database were provided to Video Pipeline beginning in 1985 by numerous entertainment companies interested in promoting their home video releases.[15] Prior to incorporating the previews into its indexed electronic database, Video Pipeline organized them onto video tapes and laser discs, which home video retailers showed via monitors in their stores. In 1996, Video Pipeline compiled a catalog of movies using textual descriptions and three still photographs on a CD-Rom for each home video. This catalog, entitled "Video Detective" was available to be seen by the public in home video retailers' stores and updated monthly. In 1998, Video Detective began showing the still photographs and textual information on the Internet, and within one year, it was able to stream previews, at which time the textual descriptions of the home videos were removed.

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[11] App. 18a, note 10.

[12] Home video retailers often incorporate some written commentary in connection with the streaming preview.

[13] App. 3a.

[14] App. 3a.

[15] App. 29a.

In 2000, Respondents objected to Video Pipeline streaming Respondents' home video previews and demanded that all previews that they had sent to Video Pipeline under a 1988 license agreement be removed from the online guide. In October 2000, Video Pipeline filed an action seeking a declaratory judgment that its online use of Respondents' previews did not violate copyright law. Respondent Buena Vista Home Entertainment ("BVHE") immediately terminated the license agreement with Video Pipeline and demanded that Video Pipeline return all previews subject to that agreement. Video Pipeline complied with the request and returned 95 previews subject to the agreement. Upon returning those previews, Video Pipeline obtained home videos from retailers and created clip previews for 62 home videos for which BVHE had demanded Video Pipeline return the traditional previews. Respondent BVHE filed counterclaims concerning Video Pipeline's use of BVHE's traditional previews, including one for copyright infringement, seeking statutory damages, potentially in excess of $100 million. Video Pipeline amended its complaint to seek a declaratory judgment that its online use of the clip previews was a permissible fair use in accordance with 17 U.S.C. § 107. Respondents filed an amended counterclaim alleging that the clip previews infringed their copyrights, and after Respondents moved to preliminarily enjoin Video Pipeline from using the clip previews online, a voluntary injunction was put into place.[16]

After extensive briefing and oral argument, the district court found the following:

- The few scenes in the clip previews provided people with some idea of the full-length video's plot, overall tone, and leading characters.[17]

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[16] App. 28a.

[17] App. 50a.

- The clip previews "in the end served the goal of advertising the movie for its client retailers."[18]

- Video Pipeline's use of the clip previews makes the full-length home videos "more available to customers and increase[s] overall sales."[19]

- The effect of Video Pipeline's use of the clip previews upon the potential market for Respondents' copyrighted works was "neutral."[20]

Despite these findings, the district court held that Video Pipeline's use of the clip previews was not a fair use under the Copyright Act, caused irreparable harm to Respondents, and preliminarily enjoined Video Pipeline from using the clip previews in its guide of previews on the Internet and from making any more clip previews for Respondents' home videos.[21] Video Pipeline appealed.

The court of appeals affirmed the district court's judgment. As part of its fair use analysis under 17 U.S.C. § 107, the court determined that the clip previews did not take, or even intend to take, the "heart" of the full-length copyrighted works.[22] The court decided, however, that: (a) the clip previews had the same purpose and character as Respondents' previews,[23] and (b) because the clip previews were copied verbatim from the full-length works, they lacked

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[18] App. 48a.

[19] App. 55a.

[20] App. 55a.

[21] The District Court's opinion is at App. 26a-64a and Order for Preliminary Injunction is at 65a-67a.

[22] App. 15a.

[23] App. 10a - 11a.

"any significant transformative quality"[24] and, accordingly, their commercial nature weighed "more strongly against Video Pipeline's use."[25]

In reaching this conclusion, the court rejected Video Pipeline's arguments that in providing an interactive, comprehensive aggregation of information and previews, including the clip previews in question, Video Pipeline transformed the underlying images into a searchable index to provide public access to information for research by means of the Internet.[26]

According to the court's reasoning, using any amount of copyrighted material that informs the public about the copyrighted work cannot be a fair use because such a use supersedes the copyright holder's exclusive right to create promotional materials from the work.[27] The court of appeals' decision sets a precedent that devastates research guides containing copyrighted materials.

REASONS FOR GRANTING THE WRIT

Review in this Court is warranted on two grounds. First, the court of appeals' decision is contrary to the Copyright Act's purpose, generally, and the fair use provision (17 U.S.C. § 107), specifically, because it eliminates the public's right to create -- and the public's ability to use -- comprehensive research and information guides that incorporate brief examples of copyrighted materials. Research guides are critically important to help people wade through the morass of information now available, and the court's decision decimates research catalogs that contain

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[24] App. 12a -13a.

[25] App. 13a

[26] App. 10a -11a.

[27] App. 17a.

images from copyrighted materials. The court below erred by diminishing the functional context of research in which the clip previews were being used. Simply because digital technology -- including the Internet -- provides a new and different delivery mechanism does not mean that the valuable concept of quoting or providing examples should be discarded; yet, the court's reasoning does precisely that.

Second, the Court should grant certiorari to resolve a conflict that now exists among the circuit courts concerning the important question whether research guides that incorporate images from copyrighted material are a fair use in accordance with 17 U.S.C. § 107. In stark contrast to the court of appeals' decision, the Seventh and Ninth Circuits have recognized that traditional paper catalogs and internet-based research search engines, which use copyrighted materials without the copyright holder's permission, are a fair use under the Copyright Act. The Third, Seventh, and Ninth Circuits are now split over how to apply the fair use doctrine as it relates to guides incorporating copyrighted images. This case provides the Court with an opportunity to resolve this irreconcilable conflict among the circuit courts.

To provide answers to difficult fair use cases, a court must first address the threshold issue of the challenged fair use's function to establish a context in which to apply § 107's four factors.[28] When the two works at issue fulfill different functions, then the scope of fair use is broader.[29]

Without first addressing this critical issue, a court's purported analysis of § 107's four non-exclusive, illustrative factors becomes little more than a post-hoc rationale for a pre-determined conclusion, or a mechanically misguided application -- rather than serving as a tool for analysis and

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[28] Nimmer on Copyright §§ 13.05 [A][5], [B][1]-[4] (2003). Nimmer "urges" courts to adopt the "functional test," within the context of which to apply 17 U.S.C. § 107's four factors. Id. at §§ 13.05[A][1][b], [A][5].

[29] Nimmer on Copyright § 13.05 [B][4].

guidance.[30] Without reference to copyright's purpose or the challenged use's function, courts do a disservice to copyright law and the public.[31] A polestar is needed by the courts on this critical issue.

As the Internet and digital technology expand, the fair use of copyrighted audio-visual materials is an issue that will not go away quietly. The clear conflict among the Third, Seventh, and Ninth Circuits, unless resolved, will have a chilling effect on the public's fair use rights, for people will be understandably reluctant to exercise their rights in light of copyright law's draconian statutory penalties[32] and the courts' lack of clear guidance as to how to apply § 107.

Because such guidance was lacking, the court below fell into error by failing to first address the different functions at issue, within which to apply § 107's four factors: an indexed catalog versus full-length home videos. By failing to analyze the four factors in light of the challenged use's function, several other errors followed throughout the court's opinion:

(1) the decision vacillates between comparing the clip previews with either (a) the full length home videos (approximately 90-120 minutes in length) or (b) Respondents' traditional previews (approximately 120 seconds in length); and

(2) the court expands the concepts of "market harm" and

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[30] Nimmer on Copyright § 13.05 [A][5].

[31] William F. Patry [former counsel to the United States House of Representatives, Committee on the Judiciary, Subcommittee on Intellectual Property and Judicial Administration] & Shira Perlmutter, Fair Use Misconstrued: Profit, Presumptions, and Parody, 11 Cardozo Arts & Ent. L.J. 667, 670 (1993) (hereafter "Patry & Perlmutter).

[32] 17 U.S.C.§ 504(c) authorizes statutory damages up to $150,000 with respect to any one work.

"derivative work" (a statutorily defined term) to encompass almost anything -- even if the challenged use's function does not provide a substitute for the copyrighted work.

I. This Court Should Grant Certiorari to Confirm That Incorporating Brief Samples of Copyrighted Materials into Reference Guides Can Be a Fair Use Within the Meaning of 17 U.S.C. 107.

Almost ten years ago, the Court stated, "Because copyright law ultimately serves the purpose of enriching the general public through access to creative works, it is important that the boundaries of copyright law be demarcated as clearly as possible."[33] Earlier this year, the Court noted that "fair use" allows the public to use a copyrighted expression itself "in certain circumstances."[34] This case is one of those circumstances, and a clearer demarcation is necessary.

The World Wide Web is the best known category of communication over the Internet. It allows users to search for and retrieve information stored in remote computers, as well as, in some cases, to communicate back to designated sites.[35] From the public's perspective, the Web is comparable to both "a vast library including millions of readily available and indexed publications and a sprawling mall offering goods and services" and has been called "the most participatory form of mass speech yet developed."[36]

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[33] Fogerty v. Fantasy, Inc., 510 U.S. 517, 527 (1994).

[34] Eldred v. Ashcroft, 537 U.S. 186, 219 (2003).

[35] Reno v. American Civil Liberties Union, 521 U.S. 844, 852 (1997).

[36] Id. at 853, 863.

Being able to show audio-visual works on the Internet is a relatively recent phenomenon; but, indexing involving printed materials using cross-referencing and brief examples of copyrighted works has long been a fair use of copyrighted materials. The court of appeals' decision, however, threatens such catalogs' well-established foundation and seriously erodes their future contributions to the public.

A. A Brief History of Cataloging's Importance

Historically, catalogs have proven dependable, effective, and efficient starting points for people seeking information about books, journals, or other items. Effective research systems help people find requested information, identify possibilities, choose among them, and then locate specific items. In 1983 (prior to the Internet's emergence), the International Organization for Standardization defined a reference work as "a document providing rapid access to information or sources of information on a given subject." In short, an effective research system, by sorting through masses of information, brings order out of chaos.

Printed catalogs and indexes have long contributed to the public's ability to research and locate copyrighted materials. One well-know example is Granger's Index to Poetry (Columbia University Press).

1. Granger's Index to Poetry

In 1904, McClurg's bookstore in Chicago needed to help customers locate poetry and short prose works. One of McClurg's employees, Edith Granger, edited a guide that listed poems by their first line, author, and later, by subject. Eventually, as the task become more complicated, Columbia University Press began editing and publishing the catalog, and for nearly a century, "Granger's" has been the "definitive source" in English for locating a poem.[37] "Granger's"

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[37] http://www.Columbiagrangers.org/grangers/aboutgrangers/ (continued...)

indexes all poetry anthologies, whether published by large commercial publishers or by small speciality presses that are likely to have been bought by libraries, regardless of their literary quality.[38] Its most recent version, "The Columbia Granger's Index to Poetry in Collected and Selected Works," which sells for about $275, provides detailed indexing of 55,000 works by poets such as Shakespeare and Shelley, as well as modern writers like Gary Snyder, Seamus Heaney, and Adrienne Rich. It covers all of Shakespeare's sonnets, all of Ezra Pound's cantos, the entire Beatles' songbook, and the works of such poet/songwriters as Patti Smith and Bob Dylan.

"Granger's" now offers its poetry database via the Internet, with "Granger's Online" indexing over 400,000 poems. People may obtain information from "Granger's" indexed electronic database to identify a poem by author, subject, title, first-line, or last-line.[39] Similar to Video Pipeline's indexed guide of a audio-visual images, Granger's Online incorporates brief examples of copyrighted materials to function as an effective research tool.

B. The Internet Emerges

New technologies are providing people with access to a vast, and oftentimes overwhelming, array of information resources. As the types of information available in digital form grow, new digital guides are being created to quickly and efficiently providing people with progressively truer representations of the items they seek; but, as new technologies arise, copyright's fundamental purpose remains

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[37] (...continued)
index.jsp.

[38] http://www.Columbiagrangers.org/grangers/aboutgrangers/development.jsp.

[39] http://www/columbia.edu/cu/cup/cgwop/why/htm.

unchanged: to benefit the public and the flow of ideas.[40] For example, the Library of Congress Prints and Photographs Division is adding new digitized images to its catalog on the Internet,[41] and the California Heritage Collection at the University of California at Berkeley offers people an indexed guide of thumbnail images of 28,000 digital representations and full display of requested images.[42]

C. Like Traditional Catalogs, Video Pipeline's Interactive Electronic Catalog Provides People With Useful Information About Full-Length Works and Is a Fair Use.

Video Pipeline's use of the clip previews in an electronic catalog promotes -- complements -- the home videos. The district court and the court of appeals repeatedly recognized this fact.[43] Moreover, as the court of appeals determined, Video Pipeline's interactive electronic guide, which incorporates the brief clips, is not a substitute for a full-length home video.[44] It is not an anthology of movies, nor is it a collection of "Readers' Digest"-type condensations of the movies. The electronic catalog's purpose and use are

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[40] Nimmer on Copyright § 13.05 [B][1] ("The Irrelevance of Medium").

[41] See http://www.loc.gov.rr/print/catalogabt.html.

[42] See http://www.oac.cdlib.org/search.image.html.

[43] App. 53a ("[T]he market for the copyrighted films may well be enhanced by Video Pipeline's clip previews, because they tend to promote the films to a broadened market of potential customers who find their way to the retailers' websites, and who might otherwise be unaware of, or unattracted to, the retail films."); App. 15a ("[T]he clip previews are meant to whet the customer's appetite, not to sate it.")

[44] App. 14a- 15a.

entirely different from the full-length copyrighted works or any derivative work, as defined by the Copyright Act.

D. The Copyright's Fair Use Provision Is Open-Ended and Flexible, and Is Ideally Suited to Address New Technologies.

"The constitutional purpose of copyright is to facilitate the flow of ideas in the interest of learning.... [T]he primary objective of our copyright laws is not to reward the author, but rather to secure for the public the benefits from the creations of authors."[45] Copyright's ability to address changing technologies and ensure public access to knowledge depends upon the fair use doctrine, codified at 17 U.S.C § 107.

Unlike other sections of the Copyright Act, Section 107 is open-ended and flexible;[46] its operative language states simply that "the fair use of a copyrighted work ... is not an infringement of copyright." The Copyright Act does not define "fair use," but instead gives examples of some uses that might be considered fair as well as four illustrative factors to be considered.

Fair use is one of the most important limitations on copyright holders' exclusive rights[47] and plays an essential role in copyright because it ensures access to knowledge.[48] Without fair use, any copying, even the most trivial or most informative, of copyrighted material, would be

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[45] Berne Convention Implementation Act of 1988, H.R. Rep. No. 609, 100 Cong. 2d Sess. 23 (1988).

[46] Patry & Perlmutter, at 669.

[47] S. Rep. No. 1135, 93rd Cong., 2d Sess. 7 (1974).

[48] Ty, Inc.v. Publications Int'l Ltd., 292 F.3d 512, 517 (7th Cir. 2002), cert. denied, 537 U.S. 1110 (2003).

infringement.[49] Nothing in § 107, or in any subsequent legislation, suggests that fair use should receive less latitude if the challenged use involves digital technology.

The plain words of § 107 rule out applying bright line tests or conclusive presumptions.[50] The statute does not ascribe relative weight to any individual factor and the factors are illustrative only.[51] Thus, § 107 is not a typical statutory provision where Congress creates a new law and rules for courts to apply. Instead, § 107 is a direction to courts to continue to develop the common law equitable rule of reason embodied by the fair use doctrine.[52] Disregarding copyright's' purpose and, instead, mechanically applying the statute's four illustrative examples, causes real damage to the fair use doctrine, and is "reflected dramatically in those cases that do go wrong."[53] This is such a case.

E. Video Pipeline's Use Is Consistent With § 107. The Court of Appeals Erred by Not Applying the Fair Use Statute's Non-Exclusive Factors Within the Context of Video Pipeline's Guides's Function.

The Court has made it clear repeatedly that § 107's four factors are a checklist of things to be considered, rather than a formula of decision.[54] The four non-exclusive factors to be considered include: (1) the purpose and character of the use (2) the nature of the copyrighted work (3) the amount and substantiality of the portion used in relation to the

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[49] Id.

[50] Patry & Perlmutter at 672.

[51] Id. at 673 and n. 27-28.

[52] Id. at 674 and n. 32.

[53] Id. at 670.

[54] Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569 (1994); Sony Corp.v. Universal City Studios, 464 U.S. 417, 448-49 n.31 (1984)

copyrighted work as a whole, and (4) the effect of the use upon the potential market for or value of the work. The court of appeals erred and created a dangerous precedent for research works by rigidly (and erroneously) applying the four factors, rather than analyzing the function of Video Pipeline's use in light of copyright's and fair use's purposes. By devaluing the overriding research aspects of Video Pipeline's indexed guide, the court's decision has devastating repercussions for similar research indexes and catalogs containing brief examples of copyrighted materials to which they refer, and ultimately undermines the goal of promoting "the Progress of Science and useful Arts."[55]

Moreover, although the court paid lip service to the Supreme Court's directive that copyright's purpose is to "encourage 'creative activity' for the public good,"[56] in its analysis, the only "public good" the court actually considered was the copyright holder's private gain.[57] The court did not even acknowledge the district court's determination that Video Pipeline's use of clip previews tended to promote home videos to a broadened market of potential viewers who might otherwise be unaware of, or unattracted to, certain home video products.[58] The court of appeals erred by giving no credence to the public's ability to benefit by using Video Pipeline's catalog of previews to locate information and make informed decisions about products being widely marketed. This error has serious repercussions for the future.

As the Internet continues to grow, guides similar to Video Pipeline's will inevitably increase, as more people try to assist others to wade through the seemingly infinite amount of materials now available via our computers. Regarding the Internet's future, the Library of Congress had this to say: "Information is being produced in greater quantities and with

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[55] U.S. Const., art. I, § 8, cl. 8.

[56] App. 8a, citing Sony Corp., 464 U.S. at 429.

[57] See App. 15a -18a.

[58] App. 53a.

greater frequency than at any time in history. Electronic media, especially the Internet, make it possible for almost anyone to become a "publisher."[59] This is good news for a society that is based on a competitive market place, but to some powerful copyright holders, the thought of "anyone becoming a publisher" is synonymous with "loss of market share." To counter this, publishers, such as Respondents, raise the concern that the Internet and digital technology facilitate copyright piracy.

While actual bootlegging of full-length movies is a valid concern of both Video Pipeline and Respondents, in the Respondents' understandable rush to prevent illegal piracy of their copyrighted materials, they also limit legitimate fair uses of their materials. Copyright law embraces and encourages the dissemination of information, and none of § 106's limited enumerated copyrights extends so far as to permit the copyright holder to suppress truthful information concerning the general context of available works. Copyright law ultimately serves the purpose of enriching the general public through access to creative works.[60] In contrast, the court's decision uses copyright to suppress information at the public's expense.

1. Section 107's First Factor: The Purpose and Character of the Use.

The court's decision under this factor is riddled with errors that impact future research catalogs – both digital-based and traditional paper-based ones. The court erred by refusing to acknowledge the import and value of Video Pipeline's entirely different functional use of the clip previews.[61] Second, the court erroneously concluded that because the clip previews contained in Video Pipeline's catalog were "copied verbatim from the copyrighted work" there was an "absence

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[59] http://www.digitalpreservation.gov.

[60] Fogerty v. Fantasy, Inc., 510 U.S. 517, 527 (1994).

[61] App. 11a.

of creative ingenuity" and "transformative character,"[62] and thus, this factor weighed "strongly" against fair use. According to the court's erroneous view, unless a catalog of copyrighted materials includes additional criticism or commentary, a collection of verbatim samples can never be considered a fair use under this factor.[63] As a result of these errors, the court further concluded that Video Pipeline's commercial use weighed "more strongly against Video Pipeline's use."[64] If these novel standards prevail, the makers of "Granger's" would find themselves liable for engaging in copyright infringement for the past century.

The court rejected the notion that Video Pipeline's work in organizing the clip previews into a form that makes them retrievable by people using a variety of search criteria and a variety of web sites. In doing so, it ignored the independent value of research guides and, instead, viewed them as nothing more than a meaningless collection of materials "copied verbatim" from other peoples' copyrighted works. Of course, if a court were to discuss the well-established "Granger's" catalogs -- which contain brief samples from copyrighted materials -- rather than Video Pipeline's electronic collection of brief examples of copyrighted audio-visual materials, it would be hard pressed to deny their value to the public. The only difference between "Granger's" catalogs and Video Pipeline's interactive database is the delivery system. The purposes and characters of the uses are the same.

2. The Second Factor: The Nature of the Copyrighted Work.

Two inquiries are relevant to this factor: (1) whether the work is published or unpublished and (2) whether the work is

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[62] App. 11a - 13a.

[63] App. 12a.

[64] App. 13a.

creative or factual.[65] The Court has stated explicitly that, in accordance with this factor, whether a work is published or unpublished is a "critical element of its 'nature.'"[66] When the copyrighted work has been published, fair use is favored. [67] Materials incorporated into a research guide are, necessarily, already published;[68] a finding aid to unpublished works would be nonsensical.

In this case, the full-length home videos are creative works, which are widely marketed, sold, and rented.[69] The home videos' creative aspect, while not disputed, is not dispositive.[70]

Nonetheless, the court – ignoring the function of Video Pipeline's indexed guide – remarkably concluded that the widely published nature of the home videos simply did not matter to the court's fair use analysis.[71] The court stated that, because the underlying copyrighted materials contain mainly creative expression, Video Pipeline's indexed catalog is not fair use "regardless of the published or unpublished status of

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[65] Harper & Row, Publishers, Inc. v. Nation Enterprises, 471 U.S. 539, 563-64 (1985).

[66] Id. at 564.

[67] Harper & Row, 471 U.S. at 564; Kelly v. Arriba Soft Corp., 336 F.3d 811, 820 (9th Cir. 2003).

[68] See, e.g., Arriba Soft, 336 F.3d at 820; Ty, 292 F.3d 512

[69] Contrary to the court of appeals' statement in footnote 8 of its opinion, nothing in the record suggest that any clip preview contained material from movies not yet released to the public. App. 14a, n.8.

[70] See e.g., Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569 (1994) (song); Ty, 292 F.3d 512 (toy design).

[71] App. 14a.

the original."[72] By rendering the copyrighted materials' published status to meaninglessness in its fair use inquiry, the court's analysis flies in the face of this Court's directive in Harper & Row that the copyrighted work's published or unpublished status is a "critical element."[73]

3. The Third Factor: The Amount and Substantiality of the Work Copied.

The court of appeals correctly found that this factor favors Video Pipeline's use for two reasons. First, the court determined that the two-minute clip previews are quantitatively "quite small" compared to the full-length home videos, which generally last one and a half to two hours.[74] Second, the court properly concluded that the clip previews did not appropriate, or intend to appropriate, the "heart" of the full-length home videos.[75] The clip previews do not give away the ending of the home videos or any other intended surprises. The court concluded that the clip previews "whet" -- but do not "sate"-- the viewer's appetite for the full-length home videos.[76] This finding reflects the fact that Video Pipeline's use does not usurp the full-length home videos.

4. Regarding the Potential Market for or Value of the Copyrighted Work, the Court Compared the Wrong Markets.

The relevant market in this case is not for an individual preview or Respondents' retail business operation (which is

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[72] Id.

[73] Harper & Row, 471 U.S. at 564.

[74] App. 14a.

[75] App. 15a.

[76] App. 15a.

also not within the Copyright Act's exclusive rights[77]), but rather the niche market for the comprehensive databases that organize information about, and previews of, full-length home videos from the numerous movie studios being lawfully sold and rented by various retailers. Individual movie studios, such as Respondents, have not, and will not, enter that market because they do not wish to assist in promoting competitors' products. In analyzing the potential market harm, the court -- instead of comparing Video Pipeline's indexed catalog with Respondents' copyrighted full-length movies -- mistakenly compared isolated clip previews with Respondents' individual previews. In analyzing potential market harm, the court compared the wrong things.

The court of appeals' decision thus radically expands a copyright holder's limited copyrights and violates the copyright bargain at the public's expense: The copyright holder not only reaps the benefits of the monopoly provided by the Copyright Act, but also retains exclusive control – and veto – over any use of the material that informs and benefits the public. This radical expansion of limited copyrights subverts the Copyright Act, threatens research guides, deprives the public of information to make informed choices, and should be reversed.

II. This Court Should Grant Certiorari to Resolve a Conflict in the Circuits about the Fair Use of Copyrighted Materials in Research Guides.

The Seventh and Ninth Circuits have recently issued decisions that directly conflict with the Third Circuit Court of Appeals' decision in this case.[78]

In conducting its analysis of copyrighted photos incorporated into a printed collectors' guide, the Seventh

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[77] See 17 U.S.C. § 106.

[78] Ty, Inc. v. Publications Int'l Ltd, 292 F.3d 512, 517 (7th Cir. 2002); Kelly v. Arriba Soft Corp., 336 F.3d 811, 818-22 (9th Cir. 2003).

Circuit paid particular attention to the fact that Congress intended courts to continue the common law tradition of fair use adjudication and avoid rigid application of the copyright statute, when on occasion it would stifle the very creativity which that law is designed to foster.[79]

The Seventh Circuit summarized fair-use case law as follows: copying that complements or promotes a copyrighted work is fair use; copying that substitutes for (1) the copyrighted work or (2) derivative works (as defined by the Copyright Act) is not fair use.[80] The Seventh Circuit's fair use analysis is consistent with copyright law's essential purpose and is pertinent to Video Pipeline's fair use of home video samples.

In applying a fair use analysis similar to the Seventh Circuit's complement/supplement analysis in Ty, the Ninth Circuit recently held that thumbnail images displayed by a search engine were a fair use because they "do not supplant the need for the originals. In addition, they benefit the public by enhancing information gathering techniques on the internet."[81]

The Seventh Circuit's and Ninth Circuit's holdings are consistent: In the functional context of research guides, copying that complements or promotes a copyrighted work does not unduly harm the copyright owner, and is fair use.

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[79] Ty, Inc. v. Publications Int'l Ltd, 292 F.3d 512, 517 (7th Cir. 2002).

[80] Id.

[81] Arriba Soft, 336 F.3d at 942.

A. The Seventh Circuit's Decision in Ty, Inc. v. Publication Int'l. Ltd. Properly Found That a Guide Containing Copyrighted Images Can Be a Fair Use in Accordance with the Copyright Act.

In Ty, Inc. v. Publication Int'l. Ltd.,[82] the United States Court of Appeals for the Seventh Circuit accurately summarized the fair use doctrine: Copying that complements a copyrighted work (in the sense that nails complement hammers) is fair use.[83] Copying that substitutes for the copyrighted work or derivative work (as defined by the Copyright Act) is not fair use.[84]

The situation in Ty, is similar to this case, but involved a printed catalog containing photographs of copyrighted dolls rather than an interactive electronic catalog containing brief samples of copyrighted audio-visual works. In Ty, a book publisher used photos in a catalog describing the numerous Beanie Babies available to the public in a thriving secondary market which widely publicized the dolls. The copyright holder in Ty, like Respondents here, claimed that it alone had the legal right to publish or authorize photographs -- regardless of the photographs' use -- of copyrighted Beanie Baby stuffed toys. The Beanie Babies' manufacturer wanted to ban the catalog's publisher from using the photos in the guide by claiming the photos infringed its Beanie Babies copyright. The district court granted summary judgment in favor of the copyright holder.

The Seventh Circuit, however, reversed the district court's decision. The Seventh Circuit determined that the photos in the catalog complemented the copyrighted dolls, were not a substitute for the Beanie Babies, and thus were a fair use. "The complementary effect may be quite weak, but the [use] is unlikely to reduce the demand for the copyrighted work.

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[82] 292 F.3d 512 (7th Cir. 2002).

[83] Id. at 517.

[84] Id.

Such copying is therefore fair use."[85] The copyright holder in Ty, like Respondents here, claimed that a publisher of a Beanie Babies guide would have to be content with the Beanie Baby name and a verbal description.[86] Since the copyright holder licensed other publishers to publish its own photos of Beanie Babies in collectors' guides, the Seventh Circuit correctly noted that a competing collectors guide without photos "would sink like a stone in the marketplace no matter how clever and informative its text," and, in essence, give the copyright holder a "second monopoly" over the guides' market.[87]

B. The Ninth Circuit's Decision in Arriba Soft Properly Found Thumbnail Sized Copies of Copyrighted Photographs to Be a Fair Use.

The United States Court of Appeals for the Ninth Circuit recently held that an Internet search engine showing thumbnail-sized copies of copyrighted photos was fair use because they functioned as a tool to help index and improve public access to images on the Internet and benefited the public by enhancing information gathering techniques.[88] Although the thumbnails were exact copies of the full-sized copyrighted photographs, the court focused on the images' different functions: the copyright holder sells the full-sized images for esthetic purposes whereas the search engine uses the thumbnail images as part of an indexing tool to provide information and improve access.

The copyright holder in Arriba Soft, like Respondents here, argued that the search engine "added nothing" to the images, and mechanically argued that they therefore could

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[85] Id. at 518.

[86] Ty, 292 F.3d at 521.

[87] Id.

[88] Kelly v. Arriba Soft Corp., 336 F.3d 811, 818-22 (9th Cir. 2003).

not be a fair use. Because this argument ignored the search engine's function, the Ninth Circuit rejected it, stating:

> Arriba's use of the images serves a different function than Kelly's use - improving access to information on the internet versus artistic expression. Furthermore, it would be unlikely that anyone would use Arriba's thumbnails for illustrative or esthetic purposes because enlarging them sacrifices their clarity. Because Arriba's use is not superseding Kelly's use but, rather, has created a different purpose for the images, Arriba's use is transformative.[89]

Likewise, Video Pipeline's database complements the full-length videos and enhance consumers' ability to obtain information about published products that are being lawfully sold and rented. Video Pipeline's aggregation, organization, and indexing of textual and audio-visual information into a searchable index of creative works -- similar to Emily Granger's of years past -- enables people to efficiently and quickly find, preview, and pursue their interest in specific movies and home videos.

Conclusion

The court's decision turns copyright law into a barrier that prevents people in the 21st Century from using modern technology to do what has been an invaluable fair use for

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[89] Arriba Soft, 336 F.3d at 819 (9th Cir. 2002).

decades. It casts doubt on the legitimacy of every guide that uses brief examples of copyrighted materials, and ultimately reduces, if not eliminates, them, at an unimaginable cost to the public. The Edith Granger's of the future -- and the public who depends on their invaluable services -- implore the Court to review this decision.

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UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

No. 02-2497

VIDEO PIPELINE, INC.

v.

BUENA VISTA HOME ENTERTAINMENT, INC.
BUENA VISTA HOME ENTERTAINMENT, INC.;
MIRAMAX FILM CORP.,
Counterclaim-Plaintiffs

v.

VIDEO PIPELINE, INC.,
Counterclaim-Defendant

Video Pipeline, Inc., Appellant

Appeal from the United States District Court
for the District of New Jersey
(D.C. Civil Action No. 00-cv-05236)
District Judge: Honorable Jerome B. Simandle.

Argued January 21, 2003

Before: BECKER,* NYGAARD, and AMBRO, *Circuit Judges*

(Opinion filed August 26, 2003;
amended September 19, 2003)

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* Judge Becker concluded his term as Chief Judge on May 4, 2003.

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OPINION OF THE COURT

AMBRO, *Circuit Judge*:

In this copyright case we review the District Court's entry of a preliminary injunction against Video Pipeline, Inc.'s online display of "clip previews." A "clip preview," as we use the term, is an approximately two-minute segment of a movie, copied without authorization from the film's copyright holder, and used in the same way as an authorized movie "trailer." We reserve the term "trailer" for previews created by the copyright holder of a particular movie (or under the copyright holder's authority).

Video Pipeline challenges the injunction on the ground that its internet use of the clip previews is protected by the fair use doctrine and, alternatively, that appellees Buena Vista Home Entertainment, Inc. and Miramax Film Corp.[1] may not receive

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[1] Buena Vista holds an exclusive license to distribute Miramax and Walt Disney Pictures and Television home videos. Buena Vista, Miramax, and Walt Disney Pictures and Television are subsidiaries of The Walt Disney Co. Because of this connection and for simplicity's sake, we refer to the appellees collectively and

the benefits of copyright protection because they have engaged in copyright misuse. We reject both arguments, and affirm.

BACKGROUND

Video Pipeline compiles movie trailers onto videotape for home video retailers to display in their stores. To obtain the right to distribute the trailers used in the compilations, Video Pipeline enters into agreements with various entertainment companies. It entered into such an agreement, the Master Clip License Agreement ("License Agreement"), with Disney in 1988, and Disney thereafter provided Video Pipeline with over 500 trailers for its movies.

In 1997, Video Pipeline took its business to the web, where it operates VideoPipeline.net and VideoDetective.com. The company maintains a database accessible from VideoPipeline.net, which contains movie trailers Video Pipeline has received throughout the years. Video Pipeline's internet clients -- retail web sites selling home videos -- use VideoPipeline.net to display trailers to site visitors. The site visitors access trailers by clicking on a button labeled "preview" for a particular motion picture. The requested trailer is then "streamed" for the visitor to view (because it is streamed the trailer cannot be downloaded to or stored on the visitor's computer). The operators of the web sites from which the trailers are accessed -- Video Pipeline's internet clients -- pay a fee to have the trailers streamed based on the number of megabytes shown to site visitors. Video Pipeline has agreements to stream trailers with approximately 25 online retailers, including Yahoo!, Amazon, and Best Buy.

As noted, Video Pipeline also operates VideoDetective.com. On this web site, visitors can search for movies by title, actor,

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individually as "Disney."

scene, genre, *etc.* When a search is entered, the site returns a list of movies and information about them, and allows the user to stream trailers from VideoPipeline.net. In addition to displaying trailers, VideoDetective.com includes a "Shop Now" button to link the user to a web site selling the requested video. Visitors to VideoDetective.com can also win prizes by playing "Can You Name that Movie?" after viewing a trailer on the site.

Video Pipeline included in its online database trailers it received under the License Agreement from Disney. Because the License Agreement did not permit this use, Disney requested that Video Pipeline remove the trailers from the database. It complied with that request.

On October 24, 2000, however, Video Pipeline filed a complaint in the District Court for the District of New Jersey seeking a declaratory judgment that its online use of the trailers did not violate federal copyright law. Disney shortly thereafter terminated the License Agreement.

Video Pipeline decided to replace some of the trailers it had removed at Disney's request from its database. In order to do so, it copied approximately two minutes from each of at least 62 Disney movies to create its own clip previews of the movies. (Again, to distinguish between the previews created under the copyright holder's authority and those created by Video Pipeline, we call the former "trailers" and the latter "clip previews" or "clips." We use the term "previews" generically.)

Video Pipeline stores the clip previews in its database and displays them on the internet in the same way it had displayed the Disney trailers. In content, however, the clip previews differ from the trailers. Each clip preview opens with a display of the Miramax or Disney trademark and the title of the movie, then shows one or two scenes from the first half of the movie, and closes with the title again. Disney's trailers, in contrast, are

designed to entice sales from a target market by using techniques such as voice-over, narration, editing, and additional music. Video Pipeline's clip previews use none of these marketing techniques.[2]

Disney also makes its trailers available online. It displays them on its own web sites in order to attract and to keep users there (a concept called "stickiness") and then takes advantage of the users' presence to advertise and sell other products. Disney has also entered into agreements to link its trailers with other businesses, and, for example, has such a link with the Apple Computer home page.

Video Pipeline amended its complaint to seek a declaratory judgment allowing it to use the clip previews. Disney filed a counterclaim alleging copyright infringement. The District Court entered a preliminary injunction, later revised, prohibiting Video Pipeline from displaying clip previews of Disney films on the internet. *See Video Pipeline, Inc. v. Buena Vista Home Entertainment, Inc., 192 F. Supp. 2d 321 (D.N.J. 2002).* Video Pipeline appeals. [3]

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[2] We have reviewed as part of the record several of the clip previews and trailers.

[3] The District Court's jurisdiction arose under *28 U.S.C. § 1331* and *28 U.S.C. § 1338.* We have jurisdiction over this interlocutory appeal pursuant to *28 U.S.C. § 1292(a)(1).*

On August 7, 2003, the District Court entered summary judgment in Disney's favor as to various claims and counterclaims, some of which overlap with what is before us. *See Video Pipeline, Inc. v. Buena Vista Home Entertainment, Inc., 2003 U.S. Dist. LEXIS 14086, 2003 WL 21811891 (D.N.J. Aug. 7, 2003).* The obvious question is whether this appeal is moot. We have concluded, however, that a live controversy remains because the District Court

DISCUSSION

We review for an abuse of discretion the District Court's decision to grant Disney's request for a preliminary injunction. *Adams v. Freedom Forge Corp., 204 F.3d 475, 484 (3d Cir. 2000).* Under this standard, questions of law receive *de novo* review, and questions of fact are reviewed for clear error. *Id.*

To obtain a preliminary injunction, a party must show (1) that it is "reasonably likely to succeed on the merits" of its copyright infringement claim and (2) a likelihood that it will suffer irreparable harm if the injunction is denied. *Id.* Other issues to consider if relevant are (3) the likelihood of irreparable harm to the non-moving party and (4) the public interest. *Id.* Video Pipeline presents no arguments for issues (3) and (4), so we shall not discuss them, assuming instead that the District Court correctly held that these factors favored issuing the injunction. We therefore address the first two issues.

I. Likelihood of Success on the Merits

Subject to the fair use exception discussed below (and other exceptions not relevant here), copyright owners have the exclusive right (1) to reproduce the copyrighted work, (2) to prepare derivative works, (3) to distribute copies, (4) to perform publicly a copyrighted motion picture, and (5) to display publicly the individual images of a copyrighted motion picture. *17 U.S.C. § 106.* To make out a *prima facie* case of copyright infringement for preliminary injunction purposes, Disney needed to show that the display of the clip previews likely violates any provision of *§ 106. See 17 U.S.C. § § 501(a), (b).*

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has not entered a final judgment or a permanent injunction in place of the preliminary one and has not otherwise revoked or altered the injunction on appeal. *See generally Grupo Mexicano de Desarrollo, S.A. v. Alliance Bond Fund, Inc., 527 U.S. 308, 313-18, 144 L. Ed. 2d 319, 119 S. Ct. 1961 (1999).*

The District Court held that Video Pipeline's clip previews likely infringe Disney's exclusive rights under three of § *106*'s provisions: subsection (2), concerning derivative works; subsection (4), dealing with public performance of motion pictures; and subsection (5), relating to public display of individual images of a motion picture.[4]

On appeal, Video Pipeline challenges the District Court's holding that the clip previews likely violate § *106(2)*, asserting that the clips cannot properly be classified as derivative works. It does not contest the Court's determination as to subsections (4) and (5). Because proof of a violation of any one subsection of § *106* states a case of illegal infringement, the District Court's decision that Disney made a *prima facie* showing of infringement on the basis of subsections (4) and (5) would not be affected by any conclusion we might make as to whether the clip previews are derivative in nature. As Video Pipeline's display of excerpts taken from the copyrighted movies clearly comes within the prohibition on public display of motion pictures, and images from a motion picture, we turn to whether Video Pipeline's use should nonetheless be countenanced on the ground that it falls within the "fair use" doctrine.

A. Fair Use

Congress's constitutional power to provide for copyright protection "is intended to motivate the creative activity of authors . . . by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired." Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 429, 78 L. Ed. 2d 574, 104 S. Ct. 774 (1984). At times, however, "rigid application of the copyright statute . . . would stifle the very creativity which that law is designed to foster." *Campbell v.*

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[4] There is no dispute as to Disney's copyright ownership in the full-length motion pictures at issue.

Acuff-Rose Music, Inc., 510 U.S. 569, 577, 127 L. Ed. 2d 500, 114 S. Ct. 1164 (1994). When that is the case, the fair use doctrine may be implicated.

Congress codified the judicially created "fair use" defense at § 107 of the 1976 Copyright Act, which permits a "fair use of a copyrighted work." *17 U.S.C. § 107.* A fair use, although not specifically defined by the statute, is one made "for purposes such as criticism, comment, news reporting, teaching . . ., scholarship, or research." *Id.* It is an affirmative defense for which the alleged infringer bears the burden of proof.

In judging the fairness of a particular use, courts must take into account the following non-exhaustive list of factors:

> (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
>
> (2) the nature of the copyrighted work;
>
> (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
>
> (4) the effect of the use upon the potential market for or value of the copyrighted work.

Id. The four statutory factors "do not represent a score card that promises victory to the winner of the majority." Pierre N. Leval, *Toward a Fair Use Standard, 103 Harv. L. Rev. 1105, 1110 (1990).* Rather, each factor is "to be explored, and the results weighed together, in light of the purposes of copyright." *Campbell, 510 U.S. at 578* (citations omitted). Thus, as we apply copyright law, and the fair use doctrine in particular, we bear in mind its purpose to encourage "creative activity" for the public good. *Sony Corp., 464 U.S. at 429.*

This focus on copyright's purpose makes relevant a

comparison of the copy with the original: where the copier uses none of his own creative activity to transform the original work, holding the fair use doctrine inapplicable will not likely interfere with copyright's goal of encouraging creativity. Thus, in the typical fair use case, the analysis under each statutory factor concentrates on the copy and the original work from which it derives. In this case, however, our analysis of the four statutory factors will take into account where relevant Disney's original full-length films and its trailers. We examine in this way the fairness of the online display of the clip previews because, among other things, the statute directs our attention under factor four to the effect of the allegedly infringing uses on both the potential market for any derivative works (the parties do not dispute that Disney's trailers qualify as derivative works) and the potential market for the originals. *See Campbell, 510 U.S. at 590.*

1. Purpose and Character of the Use

Once again, the first factor requires that we consider "the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes." *§ 107(1).* The District Court concluded that the purpose and character of Video Pipeline's clip previews weigh against finding fair use. We agree.

If a new work is used commercially rather than for a nonprofit purpose, its use will less likely qualify as fair. *Campbell, 510 U.S. at 585.* As Video Pipeline charges a fee to stream the clip previews, its use of the copies is commercial (as the District Court found).

The commercial nature of the use does not by itself, however, determine whether the purpose and character of the use weigh for or against finding fair use. *Id. at 583-84.* We look as well to any differences in character and purpose between the new use and the original. We consider whether the copy is "transformative" of the work it copied because it "altered the first with new expression, meaning, or message," or instead

"whether the new work merely supersedes the objects of the original creation." *Id. at 579* (citations and alteration in original omitted).

Video Pipeline asserts that its use of the clip previews substantially transforms the full-length films from which they derive because the clips and the movies have different purposes. According to Video Pipeline, the original works have an aesthetic and entertainment purpose while the clip previews serve only to provide information about the movies to internet users or as advertisements for the company's retail web site clients.[5] To the extent that the character and purpose of the clip

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[5] We note that the clip previews do not constitute mere "information" about the movies, as would, for example, a list of the names of the actors starring in a film, or a statement of the rating it received. Were Video Pipeline dealing only in this type of information, the fair use doctrine might not be implicated at all because copyright protection does not include facts and ideas, but only their expression. *See Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 547, 85 L. Ed. 2d 588, 105 S. Ct. 2218 (1985); 17 U.S.C. § 102(b).* Regardless, the clips are part of -- not information about -- Disney's expressive creations. *See id. at 569* ("Any copyright infringer may claim to benefit the public by increasing public access to the copyrighted work.").

Additionally, it is not clear to us that the use of a copy -- not accompanied by any creative expression on the part of the copier -- as an advertisement for the original would qualify as a type of use intended to be recognized by the fair use doctrine. *See Campbell, 510 U.S. at 578-79* ("The enquiry [under the first factor] may be guided by the examples given in the preamble to *§ 107*, looking to whether the use is for criticism, or comment, or news reporting, and the like . . . ."); *id. at 585* ("The use, for example, of a copyrighted work to advertise a product, even in a parody, will be entitled to less indulgence under the first factor of the fair use enquiry than the sale of a parody for its own sake, let alone one performed a single time by students in school.").

previews and the original full-length films diverge, however, the clips share the same character and purpose as Disney's derivative trailers. Whatever informational or promotional character and purpose the trailers possess, so do the clip previews. Consequently, the clips are likely to "supersede the objects of" Disney's derivatives. *Campbell, 510 U.S. at 579* (citations omitted).[6] Although the clips are copied from Disney's original rather than its derivative works, it is highly relevant to our inquiry here that the clips will likely serve as substitutes for those derivatives.

Video Pipeline also urges us to take into account the functional character and purpose of the database in which it stores trailers and clip previews, apparently hoping we will discern no significant difference between its database and the internet search engine used in *Kelly v. Arriba Soft Corp., 336 F.3d 811 (9th Cir. 2003).*[7] In *Kelly*, Arriba Soft Corp.'s search engine located images on other web sites in response to a user's request and displayed the results in thumbnail-size pictures, with a link that would take the user to the web site on which the

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We need not resolve these issues, however, because (as we conclude in the text) the purpose and character of the use of the clip previews and that of Disney's derivative works -- its trailers -- are the same.

[6] We see little significance in whether the trailers use marketing techniques that the clip previews do not.

[7] A database is a discrete collection of data (here, previews) set up for efficient retrieval. By comparison, a search engine refers to a system that locates data (or images, *etc.*) from other web sites; thus, a search engine will retrieve data that is not in the engine operator's control. VideoPipeline.net is a database, not a search engine.

image was found. *Id. at 815*. The Court held that the display of the thumbnail images was a fair use. *Id.*

Video Pipeline's database does not, however, serve the same function as did Arriba Soft's search engine. As used with retailers' web sites, VideoPipeline.net does not improve access to authorized previews located on other web sites. Rather, it indexes and displays unauthorized copies of copyrighted works. VideoDetective.com does permit viewers to link to legitimate retailers' web sites, but a link to a legitimate seller of authorized copies does not here, if it ever would, make *prima facie* infringement a fair use.

Finally, we note that Video Pipeline's clip previews -- to reiterate, approximately two-minute excerpts of full-length films with movie title and company trademark shown -- do not add significantly to Disney's original expression. Video Pipeline itself asserts, and the District Court found, *192 F. Supp. 2d at 337*, that the clip previews "involved no new creative ingenuity." The Court did recognize that deciding which scene or scenes to include in a clip preview requires some creative choice. *Id.* But as Video Pipeline disclaims the use of any creative ingenuity, we have no difficulty viewing those decisions as involving creativity only in a theoretical, and most narrow, sense. Hence, it is dubious what "new expression, meaning, or message" Video Pipeline has brought to its copies. *Campbell, 510 U.S. at 579.*

It is useful to compare the clip previews with a movie review, which might also display two-minute segments copied from a film. The movie reviewer does not simply display a scene from the movie under review but as well provides his or her own commentary and criticism. In so doing, the critic may add to the copy sufficient "new expression, message, or meaning" to render the use fair. *Id.* Here, in contrast, the fact that "a substantial portion," indeed almost all, "of the infringing work was copied verbatim from the copyrighted work" with no additional creative activity "reveals a dearth of transformative

character or purpose." *Id. at 587.* Consequently, rejecting the fair use defense in this case will not likely "stifle the very creativity" that the *Copyright Clause* "is designed to foster." *Id. at 577.*

With this context, the District Court correctly concluded that Video Pipeline's clip previews lack any significant transformative quality. Thus, the commercial nature of the clip previews weighs more strongly against Video Pipeline's use. *Campbell, 510 U.S. at 580* (If "the alleged infringer merely uses [the original work] to get attention or to avoid the drudgery in working up something fresh, the claim to fairness in borrowing from another's work diminishes accordingly (if it does not vanish), and other factors, like the extent of its commerciality, loom larger."). Given the shared character and purpose of the clip previews and the trailers (so that the clips will likely serve as a substitute for the trailers) and the absence of creative ingenuity in the creation of the clips, the first factor strongly weighs against fair use in this case.

2. Nature of the Copyrighted Work

The second statutory fair use factor directs courts to consider "the nature of the copyrighted work." *§ 107(2).* "This factor calls for recognition that some works are closer to the core of intended copyright protection than others, with the consequence that fair use is more difficult to establish when the former works are copied." *Campbell, 510 U.S. at 586.* Fictional, creative works come closer to this core than do primarily factual works. *Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 563, 85 L. Ed. 2d 588, 105 S. Ct. 2218 (1985).* The Disney movies at issue -- including, for example, *Beauty and the Beast, Fantasia, Pretty Woman,* and *Dead Poet's Society* -- are paradigms of creative, non-factual expression. And Disney's trailers share imaginative aspects with the originals.

Video Pipeline argues that this factor nonetheless weighs in its favor because Disney released to the public its movies, if not all of its trailers, prior to Video Pipeline's display of the clip

previews.[8] It is true that Disney would have a stronger case against fair use had it not yet made its movies available for the public's viewing pleasure. *See id. at 554* ("The unpublished nature of a work is a key . . . factor tending to negate a defense of fair use.") (quoting S. Rep. No. 94-473 at 64 (1975)) (alteration and quotation marks in original omitted).

But the second statutory factor does not necessarily weigh in favor of finding fair use simply because the public already has access to the original work. Rather, that Disney's movies and trailers contain mainly creative expression, not factual material, suggests that the use is not fair regardless of the published or unpublished status of the original. *See e.g., Campbell, 510 U.S. at 586* (holding that the song *Pretty Woman* fit "within the core of the copyright's protective purposes" because of its creative expression, without considering that the original had already been made available to the public). The District Court therefore properly relied on the creative, non-factual expression involved in Disney's movies and trailers to hold that this factor weighs against the fair use defense.

3. Amount and Substantiality of the Work Copied

The third factor requires an analysis of "the amount and substantiality of the portion used in relation to the copyrighted work as a whole." *§ 107(3)*. The District Court determined that this factor also weighed in Disney's favor. *192 F. Supp. 2d at 340.*

As Video Pipeline points out, its previews excerpt only about two minutes from movies that last one and a half to two hours. Quantitatively then, the portion taken is quite small.

But the third factor "calls for thought not only about the

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[8] The record does suggest that Video Pipeline streamed over the internet clip previews of some Disney movies not yet released to the public.

quantity of the materials used, but about their quality and importance, too." *Campbell, 510 U.S. at 587.* The District Court found that the clip previews, "for the most part, were used to provide the potential customer with some idea of the plot of each motion picture, its overall tone, and a glimpse of its leading characters." *192 F. Supp. 2d at 339.* Although the plot, tone, and leading characters are, of course, significant aspects of the films, the two-minute "glimpse" provided by the clips is made up only of scenes taken from the first half of the Disney films. Disney has not claimed, for instance, that any of the clips "give away" the ending of a movie, or ruin other intended surprises for viewers of the full-length films. Moreover, as advertisements, the clip previews are meant to whet the customer's appetite, not to sate it; accordingly, they are not designed to reveal the "heart" of the movies. Simply put, we have no reason to believe that the two-minute clips manage in so brief a time, or even intend, to appropriate the "heart" of the movies. *Compare Harper & Row, 471 U.S. at 564-55* (weighing this factor against finding fair use because the alleged infringer "took what was essentially the heart of the book").

Because the clip previews copy a relatively small amount of the original full-length films and do not go to the "heart" of the movies, this factor, contrary to the District Court's determination, weighs in favor of finding fair Video Pipeline's display of its clips.

4. Effect on Potential Market or Value

Finally, courts should evaluate "the effect of the use upon the potential market for or value of the copyrighted work." *§ 107(4).* The District Court considered the question to be whether Video Pipeline's "use of the copyrighted work affects or materially impairs the marketability of the copyrighted motion pictures," and, finding the evidence equivocal, concluded that the fourth factor weighed neither for nor against finding a likelihood of fair use. *192 F. Supp. 2d at 340, 343.*

As mentioned above, this final factor "must take [into]

account not only . . . harm to the original but also . . . harm to the market for derivative works." *Campbell, 510 U.S. at 590.* Because the issues pertaining to the potential harm to the market for Disney's derivative trailers are more straightforward, we focus our analysis on this area and do not review the District Court's conclusion as to harm to the market for the original full-length films.[9] It is in this context that we conclude that the fourth factor weighs in Disney's favor.

Video Pipeline argued in the District Court that no market exists, or could exist, for movie previews because no one "ever paid or will ever pay any money merely to see trailers." But in fact retail websites are paying Video Pipeline to display both trailers and clip previews. Moreover, Video Pipeline takes too narrow a view of the harm contemplated by this fourth factor. The statute directs us to consider "the effect of the use upon the . . . *value* of the copyrighted work," not only the effect upon the "market," however narrowly that term is defined. *§ 107(4); see also Worldwide Church of God v. Philadelphia Church of God, Inc., 227 F.3d 1110, 1119 (9th Cir. 2000)* (drawing such a distinction). And the value "need not be limited to monetary rewards; compensation may take a variety of forms." *Id.*; *see also Sony Corp., 464 U.S. at 447 n.28* (stating in a different context that the "copyright law does not require a copyright owner to charge a fee for the use of his works, and . . . the owner of a copyright may well have economic or noneconomic reasons for permitting certain kinds of copying to occur without

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[9] The District Court declined to consider the potential harm to the market for derivatives on the ground that Disney had not argued the issue. Disney did, however, so argue in both its briefs in support of its motion for a preliminary injunction, and it submitted evidence to support those arguments. Video Pipeline also responded in the District Court to the merits of Disney's arguments concerning potential harm to the market for its derivative works. Consequently, Video Pipeline suffers no harm by our addressing this issue.

receiving direct compensation from the copier").

Disney introduced evidence that it has entered an agreement to cross-link its trailers with the Apple Computer home page and that it uses on its own websites "the draw of the availability of authentic trailers to advertise, cross-market and cross-sell other products, and to obtain valuable marketing information from visitors who chose [*sic*] to register at the site or make a purchase there." App. 945; *see also Kelly, 336 F.3d at 821* ("Kelly's images are related to several potential markets. One purpose of the photographs is to attract internet users to his web site, where he sells advertising space as well as books and travel packages. In addition, Kelly could sell or license his photographs to other web sites or to a stock photo database, which then could offer the images to its customers."). In light of Video Pipeline's commercial use of the clip previews and Disney's use of its trailers as described by the record evidence, we easily conclude that there is a sufficient market for, or other value in, movie previews such that the use of an infringing work could have a harmful effect cognizable under the fourth factor.

We have already determined that the clip previews lack transformative quality and that, though the clips are copies taken directly from the original full-length films rather than from the trailers, display of the clip previews would substitute for the derivative works. As a result, the clips, if Video Pipeline continues to stream them over the internet, will "serve[ ] as a market replacement" for the trailers, "making it likely that cognizable market harm to the [derivatives] will occur." *Campbell, 510 U.S. at 591*. For instance, web sites wishing to show previews of Disney movies may choose to enter licensing agreements with Video Pipeline rather than Disney, as at least 25 have already done. And internet users searching for previews of Disney films may be drawn by the clip previews to web sites other than Disney's, depriving Disney of the opportunity to

advertise and sell other products to those users. [10]

Consequently, "'unrestricted and widespread conduct of the sort engaged in by [Video Pipeline] . . . would result in a substantially adverse impact on the potential market' for the [derivative works]." *Id. at 590* (quoting 3 M. Nimmer & D. Nimmer, *Nimmer on Copyright* § 13.05(A)(4) (1993)). We therefore hold that the District Court should have weighed this factor against recognizing the fair use defense in this case.

* * * * *

Three of the four statutory factors indicate that Video Pipeline's internet display of the clip previews will not qualify as a fair use. From our consideration of each of those factors, we cannot conclude that Video Pipeline's online display of its clip previews does anything but "infringe[ ] a work for personal profit." *Harper & Row, 471 U.S. at 563.* The District Court therefore correctly held that Video Pipeline has failed to show that it will likely prevail on its fair use defense.

B. Copyright Misuse

Video Pipeline further contends that Disney has misused its copyright and, as a result, should not receive the protection of copyright law. Video Pipeline points to certain licensing agreements that Disney has entered into with three companies and sought to enter into with a number of other companies operating web sites.[11] Each of these licensing agreements

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[10] Record evidence indicates that clip previews were streamed over the internet more than 30,000 times between November 2000 and April 2001.

[11] The record contains three signed licensing agreements and numerous letters sent by Disney to other companies asking them to sign the same agreement.

provides that Disney, the licensor, will deliver trailers by way of hyperlinks[12] for display on the licensee's web site. The Agreements further state:

> The Website in which the Trailers are used may not be derogatory to or critical of the entertainment industry or of [Disney] (and its officers, directors, agents, employees, affiliates, divisions and subsidiaries) or of any motion picture produced or distributed by [Disney] . . . [or] of the materials from which the Trailers were taken or of any person involved with the production of the Underlying Works. Any breach of this paragraph will render this license null and void and Licensee will be liable to all parties concerned for defamation and copyright infringement, as well as breach of contract . . . .

As Video Pipeline sees it, such licensing agreements seek to use copyright law to suppress criticism and, in so doing, misuse those laws, triggering the copyright misuse doctrine.

Neither the Supreme Court nor this Court has affirmatively recognized the copyright misuse doctrine. *See Dun & Bradstreet Software Servs., Inc. v. Grace Consulting, Inc.*, 307 F.3d 197, 221 (3d Cir. 2002). There is, however, a well-established patent misuse doctrine, *see, e.g.*, *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 86 L. Ed. 363, 62 S. Ct. 402, 1942 Dec. Comm'r Pat. 733 (1942); *W.L. Gore & Assocs., Inc. v. Carlisle Corp.*, 529 F.2d 614 (3d Cir. 1976), and, as noted below, other courts of appeals have extended the doctrine to the copyright context.

The misuse doctrine extends from the equitable principle that courts "may appropriately withhold their aid where the

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[12] A hyperlink allows an internet user to connect to another web site.

plaintiff is using the right asserted contrary to the public interest." *Morton Salt, 314 U.S. at 492*. Misuse is not cause to invalidate the copyright or patent, but instead "precludes its enforcement during the period of misuse." *Practice Management Info. Corp. v. American Med. Assoc., 121 F.3d 516, 520 n.9 (9th Cir. 1997)* (citing *Lasercomb America, Inc. v. Reynolds, 911 F.2d 970, 979 n.22 (4th Cir. 1990)*). To defend on misuse grounds, the alleged infringer need not be subject to the purported misuse. *Morton Salt, 314 U.S. at 494* ("It is the adverse effect upon the public interest of a successful infringement suit in conjunction with the patentee's course of conduct which disqualifies him to maintain the suit, regardless of whether the particular defendant has suffered from the misuse of the patent."); *Lasercomb, 911 F.2d at 979* ("The fact that appellants here were not parties to one of Lasercomb's standard license agreements is inapposite to their copyright misuse defense. The question is whether Lasercomb is using its copyright in a manner contrary to public policy, which question we have answered in the affirmative.").

Misuse often exists where the patent or copyright holder has engaged in some form of anti-competitive behavior. *See, e.g., Morton Salt, 314 U.S. at 492* (explaining that public policy "forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office"); *Practice Management, 121 F.3d at 521* (finding copyright misuse where license to use copyrighted good prohibited licensee from using competing goods); *Lasercomb, 911 F.2d at 979* (holding the copyright holder misused its copyright by including in licensing agreements a provision that neither the licensee company nor its officers, employees, *et al.*, could develop competing goods for the term of the agreement, ninety-nine years). More on point, however, is the underlying policy rationale for the misuse doctrine set out in the Constitution's Copyright and Patent Clause: "to promote the Progress of Science and useful Arts." *Const. Art. I, § 8, cl. 8*; *see also Morton Salt, 314 U.S. at 494* ("The patentee, like these other holders of an exclusive privilege

granted in furtherance of a public policy [trademark and copyright holders], may not claim protection of his grant by the courts where it is being used to subvert that policy."); *Lasercomb, 911 F.2d at 978* ("The question is . . . whether the copyright is being used in a manner violative of the public policy embodied in the grant of a copyright."). The "ultimate aim" of copyright law is "to stimulate artistic creativity for the general public good." *Sony Corp., 464 U.S. at 432*; *see also Eldred v. Ashcroft, 537 U.S. 186, 123 S. Ct. 769, 787, 154 L. Ed. 2d 683 (2003)* ("Copyright's purpose is to *promote* the creation and publication of free expression.") (emphasis in original). Put simply, our Constitution emphasizes the purpose and value of copyrights and patents. Harm caused by their misuse undermines their usefulness.

Anti-competitive licensing agreements may conflict with the purpose behind a copyright's protection by depriving the public of the would-be competitor's creativity. The fair use doctrine and the refusal to copyright facts and ideas also address applications of copyright protection that would otherwise conflict with a copyright's constitutional goal. *See Eldred, 123 S. Ct. at 789*; *Campbell, 510 U.S. at 575* & n.5. But it is possible that a copyright holder could leverage its copyright to restrain the creative expression of another without engaging in anti-competitive behavior or implicating the fair use and idea/expression doctrines.[13]

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[13] *See* Note, *Clarifying the Copyright Misuse Defense: The Role of Antitrust Standards and First Amendment Values, 104 Harv. L. Rev. 1289, 1304-06 (1991)* (advocating application of the copyright misuse defense where "the plaintiff has improperly used its copyright power to restrain free trade in ideas," and explaining: "The copyright misuse defense provides a necessary complement to the idea/expression dichotomy [under which an author's expression may be copyrighted, but an idea may not] and fair use doctrine in vindicating the public interest in the dissemination of ideas. The idea/expression limitation merely restricts the scope of the

For instance, the concurring opinion, written for a majority of the judges, in *Rosemont Enters., Inc. v. Random House, Inc., 366 F.2d 303 (2d Cir. 1966)*, concluded that pursuant to the unclean hands doctrine the District Court should not have entered a preliminary injunction against an alleged copyright infringer where the copyright holder sought to use his copyright "to restrict the dissemination of information." *Id. at 311* (Lumbard, C.J., concurring). In *Rosemont Enters.*, a corporation acting for the publicity-shy Howard Hughes purchased the copyright to an article about Hughes solely to bring an infringement suit to enjoin the publication of a forthcoming biography on Hughes. *Id. at 313.* The concurring opinion reasoned:

> The spirit of the *First Amendment* applies to the copyright laws at least to the extent that the courts should not tolerate any attempted interference with the public's right to be informed regarding matters of general interest when anyone seeks to use the copyright statute which was designed to protect interests of quite a different nature.

Id. at 311; *see also Eldred, 123 S. Ct. at 790 n.24* ("It is appropriate to construe copyright's internal safeguards to accommodate *First Amendment* concerns.").

Although *Rosemont Enters.* did not concern an anti-competitive licensing agreement as in the typical misuse case,

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particular copyright being sued upon, and absent a claim of misuse, it cannot be brought to bear on improper licensing restrictions or other misconduct. As with the misuse defense, fair use doctrine excuses copying that would otherwise be infringement in order to vindicate the copyright policy promoting the diffusion of ideas. Unlike misuse doctrine, however, the fair use inquiry directs courts' attention to the social value of the defendant's conduct rather than the social harm caused by the plaintiff's use of its copyright.").

it focused -- as do the misuse cases -- on the copyright holder's attempt to disrupt a copyright's goal to increase the store of creative expression for the public good. *366 F.2d at 311* ("It would be contrary to the public interest to permit any man to buy up the copyright to anything written about himself and to use his copyright ownership to restrain others from publishing biographical material concerning him."); *Lasercomb, 911 F.2d at 978* ("The company is required to forego utilization of the creative abilities of all its officers, directors and employees in the area of [computer assisted design and computer assisted manufacture] die-making software. Of yet greater concern, these creative abilities are withdrawn from the public."). A copyright holder's attempt to restrict expression that is critical of it (or of its copyrighted good, or the industry in which it operates, *etc.*) may, in context, subvert -- as do anti-competitive restrictions -- a copyright's policy goal to encourage the creation and dissemination to the public of creative activity.

The licensing agreements in this case do seek to restrict expression by licensing the Disney trailers for use on the internet only so long as the web sites on which the trailers will appear do not derogate Disney, the entertainment industry, *etc.* But we nonetheless cannot conclude on this record that the agreements are likely to interfere with creative expression to such a degree that they affect in any significant way the policy interest in increasing the public store of creative activity. The licensing agreements do not, for instance, interfere with the licensee's opportunity to express such criticism on other web sites or elsewhere. There is no evidence that the public will find it any more difficult to obtain criticism of Disney and its interests, or even that the public is considerably less likely to come across this criticism, if it is not displayed on the same site as the trailers. Moreover, if a critic wishes to comment on Disney's works, the fair use doctrine may be implicated regardless of the existence of the licensing agreements. Finally, copyright law, and the misuse doctrine in particular, should not be interpreted to require Disney, if it licenses its trailers for

display on any web sites but its own, to do so willy-nilly regardless of the content displayed with its copyrighted works. Indeed such an application of the misuse doctrine would likely decrease the public's access to Disney's works because it might as a result refuse to license at all online display of its works.

Thus, while we extend the patent misuse doctrine to copyright, and recognize that it might operate beyond its traditional anti-competition context, we hold it inapplicable here. On this record Disney's licensing agreements do not interfere significantly with copyright policy (while holding to the contrary might, in fact, do so). The District Court therefore correctly held that Video Pipeline will not likely succeed on its copyright misuse defense.

II. Irreparable Harm

On the basis of Disney's *prima facie* infringement case and its likelihood of success against Video Pipeline's asserted defenses, the District Court presumed Disney would suffer irreparable injury if a preliminary injunction did not issue. Generally, "a showing of a prima facie case of copyright infringement or reasonable likelihood of success on the merits raises a presumption of irreparable harm." *Apple Computer, Inc. v. Franklin Computer Corp., 714 F.2d 1240, 1254 (3d Cir. 1983).*

When, however, "material peripheral to the [copyright holder's] business has been infringed," we "require a stronger showing of irreparable harm as the [copyright holder's] likelihood of success on the merits wanes." *Marco v. Accent Publ'g Co., 969 F.2d 1547, 1553 (3d Cir. 1992).* Video Pipeline has likely infringed Disney's movies, which are certainly more than peripheral to its business. Even if we were to consider here (as we did under the fourth fair use factor) that the likely market harm will be to the derivative market for trailers rather than to the market for the full-length features, and that the trailer market may be only peripheral to Disney's business, Disney has shown

a strong likelihood of success on the merits, and so need not make a particularly strong showing of irreparable harm.

Regardless, the record indicates that Disney will likely incur incalculable losses from the clip previews' competition with the trailers -- especially in terms of internet users' attraction to (and the "stickiness" of) Disney's and others' web sites and the concomitant opportunities for sales and marketing on those sites. Disney will therefore likely suffer irreparable harm if Video Pipeline is not enjoined. Moreover, given the verbatim copying, lack of creative ingenuity, and profit-driven purpose of the clip previews, we have no concern that this case is one in which the creative and expressive goals of copyright law would be served better by denying an injunction. *See Campbell, 510 U.S. at 578 n.10.*

CONCLUSION

The District Court correctly held that Disney will likely succeed on the merits of its copyright infringement case, given its *prima facie* showing and that Video Pipeline's attempts to defend on fair use and copyright misuse grounds will likely fail. The Court's conclusion as to irreparable harm was also correct. We therefore affirm the entry of the preliminary injunction prohibiting Video Pipeline from displaying its clip previews on the internet.

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEW JERSEY

Civil No. 00-5236 (JBS)

VIDEO PIPELINE, INC.,
Plaintiff,

v.

BUENA VISTA HOME ENTERTAINMENT, INC.,
Defendant.

BUENA VISTA HOME ENTERTAINMENT, INC.,
and MIRAMAX FILM CORP.,
Counterclaim-Plaintiffs,

v.

VIDEO PIPELINE, INC.,
Counterclaim-Defendant.

March 26, 2002, Decided

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SIMANDLE, District Judge:

This case involves the intersection of the motion picture and video retailing industries, and the emerging commercial enterprise of Internet sales. Motion pictures have traditionally been promoted through the use of "trailers," which are short previews of the movies, usually created by the film studios. The same is true of the promotion of home videos of such motion pictures. The motion pictures and the home videos enjoy generous protection under the copyright law. The rise of the Internet as an online location for market transactions has changed the traditional scheme of these exchanges and provides the backdrop for this case.

In the multi-billion dollar home video industry, an increasing amount of sales takes place over the Internet. This case examines the copyright issues that arise when an entity uses the copyrighted motion pictures to make short trailers, which are then made available for money to the entity's clients, which are video retailers, for the viewing by retail customers on the retailers' Internet websites, for the purpose of promoting sales of the copyrighted videos. In this case, the copyright owners seek a preliminary injunction against the entity which creates and sells the unauthorized trailers for their copyrighted home videos.

This matter comes before the Court upon motion by defendant Buena Vista Home Entertainment, Inc. (formerly known as Buena Vista Home Video), and counterclaim-plaintiff Miramax Film Corp. (hereinafter collectively "BVHE" or "defendants") for a preliminary injunction upon their amended counterclaim against plaintiff/counterclaim-defendant Video Pipeline, Inc. Plaintiff Video Pipeline originally brought suit

against defendant Buena Vista Home Entertainment, Inc., for a declaratory judgment that plaintiff's use of trailers provided by BVHE in creating its own video clips to be commercially used by Internet video retailers does not constitute copyright infringement under the Copyright Act.

Defendant BVHE, a company that manufactures, distributes, and sells home video versions of copyrighted motion pictures, is the exclusive licensee of Walt Disney Pictures and Television ("Disney") in the home video market, and is the exclusive distributor for counterclaim-plaintiff Miramax Film Corp., in the home video market. Plaintiff Video Pipeline compiles, organizes, and provides previews of home video products to home video wholesalers and retailers. A Master Clip License Agreement entered into between Video Pipeline and BVHE as of November 7, 1988, granted license to Video Pipeline to exhibit certain videos provided by BVHE. After filing the above suit for a declaratory judgment, and after BVHE demanded return for its promotional materials, Video Pipeline began creating previews from movies owned by its customer retailers. Defendant BVHE moved for a preliminary injunction to enjoin Video Pipeline from continuing to create and distribute its own video clips of BVHE's movies.

After BVHE filed this motion for preliminary injunction, a voluntary injunction was put into place until resolution of this motion. This Court granted Video Software Dealers Association, the National Association of Recording Merchandisers, Inc., and the Motion Picture Association of America, Inc., leave to participate and submit briefs in this motion as amici curiae. A lengthy hearing was held, receiving evidence and arguments of counsel. For the reasons now discussed, the Court will grant defendant BVHE's motion for a preliminary injunction, pursuant to the following findings of fact and conclusions of law entered under Rules 52(a) and 65(d), Fed. R. Civ. P.

BACKGROUND

In this preliminary injunction motion, Buena Vista Home Entertainment, Inc. ("BVHE") seeks to enjoin Video Pipeline from streaming video previews it created out of motion pictures upon which BVHE owns the copyright. BVHE is a wholly-owned, indirect subsidiary of The Walt Disney Company, in the business of manufacturing, distributing, and selling home video versions of copyrighted motion pictures and other entertainment content. (McQueen Cert. ¶ 1.) Since 1987, BVHE has been the exclusive licensee of Walt Disney Pictures and Television for the distribution of its products in the home video market. (McQueen Cert. ¶ 2.) In addition, BVHE is the exclusive distributor for Miramax, also a wholly-owned, indirect subsidiary of The Walt Disney Company, in the home video market. (McQueen Cert. ¶ 3.) Video Pipeline is a company founded in 1985 that compiles and organizes promotional previews from entertainment companies into promotional videos which retailers display in their stores to promote retail sales and rentals. (Horovitz Aff. ¶ 5.) Since 1985, Video Pipeline had provided promotional videos to retailers for in-store use, at times editing the material sent by the movie studios, either because it contained sales and marketing information not intended for customer viewing or because Video Pipeline's retailer clients complained about certain inappropriate previews supplied by studios. (Horovitz Aff. ¶ 5, 6.)

BVHE and Video Pipeline entered into a Master Clip Agreement dated November 7, 1988, by which BVHE granted Video Pipeline permission to use certain videotape promotional previews ("trailers") in compilations to be exhibited in video stores to promote home video sales and rentals. (McQueen Cert. ¶ 4.) Beginning in 1995, home video retailers began using the Internet as a means of marketing home video products. (Horovitz Aff. ¶ 17.) In 1997, Video Pipeline began making the promotional previews available to home video retailers' Internet

websites by means of an Internet service comprised of "VideoPipeline.net" to promote sales and rentals of the home video products. (Horovitz Aff. ¶ 17; McQueen Cert. ¶ 4.) VideoPipeline.net is not a website, but is the network through which retailers' customers can access and stream the previews. (Horovitz Aff. ¶ 18.) These previews can be viewed but cannot be downloaded by Internet users. (Horovitz Aff. ¶ 22.)

In general, retail customers can view the previews while on the retailers' websites by clicking on the "preview" buttons for a particular motion picture, which links them immediately to VideoPipeline.net, which then "streams" the video to the customer. (Hearing Tr. at 102.) "Video Pipeline.com" is Video Pipeline's corporate website that provides information about Video Pipeline's online promotional services for retailers, and no previews are actually shown via that site itself. (Horovitz Aff. 19.) "VideoDetective.com" is another website that uses VideoPipeline.net to allow Internet users to access previews and to link to retail websites by means of a "Shop Now" button. (Horovitz Aff. ¶ 20.) Video Pipeline has approximately 25 agreements with certain retailers, including Yahoo!Shopping, Netflix, TLA, and IMDB/Amazon to provide these services. (Horovitz Aff. ¶ 23.) In providing these services to Internet-based retailers, Video Pipeline charges the retailers "per Mega Byte actually shown to consumers." (Horovitz Aff. ¶ 26.) Thus, Video Pipeline receives its income for this service from the retailers it serves, based upon the units of time that a retailer's customer is viewing the Video Pipeline previews.

On September 13, 2000, BVHE advised Video Pipeline that it did not have permission to use the studio-supplied trailers on the Internet, nor were they cleared for online use, and requested that the previews of BVHE's motion pictures be removed from the website immediately. (McQueen Cert. ¶ 5.) On October 24, 2000, Video Pipeline filed suit in this Court against BVHE, seeking a declaratory judgment that its use of promotional

materials provided by BVHE to Video Pipeline did not violate any of BVHE's rights under federal copyright law or any other law. (McQueen Cert. ¶ 6; Original Compl. at 1.) BVHE subsequently terminated the Master Clip License Agreement and demanded return of all trailers previously provided to Video Pipeline. (McQueen Cert. ¶ 6.) On December 21, 2000, Video Pipeline returned to BVHE 80 promotional previews subject to the Master Clip License Agreement. (Horovitz Aff. ¶ 29; McQueen Cert. ¶ 6.)

Video Pipeline removed the previews subject to the agreement from the Internet at BVHE's request, but continued to make its own previews (hereinafter "clip previews") from copies of videos of BVHE's copyrighted motion pictures owned by its retailer clients, with the exception of one clip preview of the Belgian movie "Everybody Famous," which was made from material provided directly by BVHE. (Horovitz Aff. ¶ 30.) Each clip preview created by Video Pipeline is approximately 120 seconds in length and consist of an opening display of the Disney or Miramax trademark, the title of the motion picture being distributed by BVHE, then two or more scenes from the motion picture, followed by another display of the title. (McQueen Cert. ¶ 11; Horovitz Aff. ¶ 32.) In addition, Video Pipeline's clip previews have no voice over, no editing, no use of additional music, and no use or narration or other types of marketing techniques often found in studio-produced trailers. (Hearing Tr. at 19.) At issue are 62 clip previews, including those for movies such as Fantasia, Beauty and the Beast, and Pretty Woman, for purposes of this preliminary injunction. (Hearing Tr. at 87; McQueen Cert. Ex. H.) It is estimated that Internet users have streamed Video Pipeline's clip previews over 30,000 times between November 3, 2000, and April 3, 2001. (McQueen Cert. ¶ 10.)

BVHE alleges that Video Pipeline's creation, distribution, and provision of online streaming of clip previews to video

retailers in this fashion violates § 106 of the Copyright Act. Video Pipeline alleges that its clip previews do not infringe the copyrights on the underlying motion pictures, and that they are in any event protected by the "first sale" doctrine under § 109(a) of the Copyright Act and by the "fair use" doctrine under § 107 of the Copyright Act.

DISCUSSION

I. Preliminary Injunction Standard

Defendant BVHE moves for a preliminary injunction against Video Pipeline. The standard for injunctive relief in the Third Circuit is well established. In determining whether preliminary injunctive relief is proper, a court considers the following factors: (1) the likelihood of success on the merits; (2) whether the moving party will be irreparably harmed absent such relief; (3) the likelihood of irreparable harm to the nonmoving party; and (4) whether the injunction serves the public interest. See Adams v. Freedom Forge Corp., 204 F.3d 475, 485 (3d Cir. 2000) (citing AT & T v. Winback & Conserve Program, Inc., 42 F.3d 1421, 1427 (3d Cir. 1994)); see also Educational Testing Servs. v. Katzman, 793 F.2d 533, 538 (3d Cir. 1986), cert. denied, 514 U.S. 1103 (1995). Here, where defendant BVHE alleges that plaintiff Video Pipeline's acts of creating, distributing, and providing online streaming of clip previews of full-length feature films provided by BVHE, according to their Master Clip License Agreement, constituted a violation of the Copyright Act, the Court considers the likelihood of success on the merits of BVHE's claim for copyright infringement.

A. Likelihood of Success on the Merits

BVHE's Amended Counterclaim alleges in part that Video Pipeline engaged in conduct that constitutes copyright infringement under § 106 of the Copyright Act, 17 U.S.C. § 106.

Copyright infringement will be established if the plaintiff proves two elements: (1) the plaintiff owns the copyrighted material; and (2) the defendant has engaged in unauthorized "copying" within the meaning of § 106 of the Copyright Act. Ford Motor Co. v. Summit Motor Prod., Inc., 930 F.2d 277, 290-91 (3d Cir.) (citing Masquerade Novelty, Inc. v. Unique Indus., Inc., 912 F.2d 663, 667 (3d Cir. 1990), cert. denied, 502 U.S. 939 (!991); Whelan Assocs. v. Jaslow Dental Lab., 797 F.2d 1222, 1231 (3d Cir. 1986)); see also Educational Testing Servs. v. Katzman, 793 F.3d at 538. Here, it is uncontested that Disney, BVHE's licensor, owns the copyright of the full-length motion pictures on which Video Pipeline's clip previews are based, as well as the trademarks of the logos of Disney, Buena Vista, Hollywood Pictures, and Touchstone, shown at the beginning of the clip previews. See McQueen Cert. ¶¶ 21, 22. To BVHE is thus conferred the exclusive rights reserved as copyright owner under § 106 of the Copyright Act.

1. Exclusive Rights Under § 106 of the Copyright Act

BVHE argues that Video Pipeline's reproduction of the video clips provided by BVHE infringes all five of the exclusive rights that are reserved to it as owner of the copyright at issue under § 106. See 17 U.S.C. § 501(a) ("Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 121 . . . is an infringer of the copyright or right of the author."). Section 106 of the Copyright Act provides that the owner of the copyright, subject to sections 107 through 121, has the exclusive rights to do and to authorize any of the following:

(1) to reproduce the copyrighted work in copies . . . ;

(2) to prepare derivative works based upon the copyrighted work;

(3) to distribute copies . . . of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

(4) in the case of . . . motion pictures and other audiovisual

works, to perform the copyrighted work publicly;
(5) in the case of . . . pictorial . . . works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; . . . .

17 U.S.C. § 106.

Video Pipeline's creation of video clips is most likely a derivative work under § 106(2). See, e.g., Lamb v. Starks, 949 F. Supp. 753, 756 (N.D. Cal. 1996) (holding that defendant infringed copyright by copying trailer consisting of parts of scenes from plaintiff's movie). Though not binding, the Lamb court's analysis of trailers, or movie previews, as a derivative work under § 106 is instructive in this case, which deals specifically with video clips of full-length copyrighted movies. In Lamb, defendant copied plaintiff's trailer of his full-length movie without consent and specially formatted it with other trailers on a compilation video tape to demonstrate on defendant's "3-D" system. The court held that "[t]he trailer clearly is a derivative of the full-length copyrighted movie," relying on the definition of "derivative work" under § 101, which states:

A "derivative work" is a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a "derivative work."

17 U.S.C. § 101.

This case similarly deals with clip previews consisting exclusively of scenes taken from full-length copyrighted feature

films. Previously, Video Pipeline had received ready-made trailers of Disney movies that it was then authorized to exhibit in retailer's video stores to promote home video rentals and sales. Here, however, after Video Pipeline returned the studio-made trailers to BVHE due to their disagreement over their Internet display, Video Pipeline then compiled and organized its own clip previews from the copyrighted motion pictures owned by its retailer clients.[1] Video Pipeline provided these previews for a fee to retailers as an online service, so that customers viewing the retailer's website could click on an icon, which would then seamlessly take them to Video Pipeline's website where the clip would be shown. As in the Lamb case, the video clips here are based exclusively on the copyrighted motion picture, and its scenes come entirely from BVHE's movies. Plaintiff failing to argue to the contrary, and because the clip previews consist entirely of scenes excerpted from defendant's copyrighted films, the Court finds that plaintiff's clip previews for this Internet use constitute "derivative works" under § 106(2).

The Court finds that Video Pipeline's clip previews also constitute a public performance under § 106(4). The Third Circuit has explained that § 106(4) confers upon the copyright owner the exclusive right to perform a copyrighted work publicly and to authorize such performances. See Columbia Pictures Indus., Inc. v. Aveco, Inc., 800 F.2d 59, 61-62 (3d Cir. 1986) (holding that video cassette business's rental of rooms for viewing of movies for fee constituted "public performance" under 106(4)). To "perform" a work means "in the case of a motion picture . . . , to show its images in any sequence of to

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[1]Video Pipeline asserts that all but one of Video Pipeline's Clip Previews were from materials not provided by BVHE or Miramax, the one exception being a clip preview of the movie "Everybody Famous," which was created from material sent to Video Pipeline by Miramax. Horovitz Aff. ¶¶ 30, 31.

make the sounds accompanying it audible." 17 U.S.C. § 101. An individual is performing a work "whenever he does anything by which the work is transmitted, repeated, or made to recur." Aveco, 800 F.2d at 62. To perform or display a work "publicly" means

> (1) to perform or display it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered; or
>
> (2) to transmit or otherwise communicate a performance or display of the work to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times.

17 U.S.C. § 101.

Customers of plaintiff's retailer clients can access the clip previews provided by plaintiff on the Internet. As each clip preview is accessed, scenes from the copyrighted motion picture are transmitted to the individual computer screens, actual points-of-sale in this case, and this replaying of selected scenes from the movie recurs when another of retailer's customers clicks on the appropriate icon. Because transmission of the clip previews to individual computers occurs when any member of the public selects an icon that redirects him or her to Video Pipeline's website, from which the video clips are then shown, such actions by Video Pipeline constitute a "public performance" under § 106(4). See also Columbia Picture Indus., Inc. v. Redd Horne, Inc., 749 F.2d 154, 158 (3d Cir. 1984) (holding that video store's exhibition of movie videos to patrons for fee in private booths constituted "public performance").

In addition, the Court finds that Video Pipeline's service of providing clip previews online constitutes a "public display" that

violates the copyright owner's exclusive right "to display the copyrighted work publicly." 17 U.S.C. § 106(5). To "display" a work means "in the case of a motion picture . . . , to show individual images nonsequentially." 15 U.S.C. § 101. Internet transmission of copyrighted photographs constituted a "public display" even though it was limited to subscribers. See Playboy Enters., Inc. v. Frena, 839 F. Supp. 1552, 1557 (M.D. Fla. 1993), overruled by statute on other grounds as stated in ALS Scan, Inc. v. Remarg Cmtys., Inc., 238 F.3d 619, 623 (4th Cir. 2001) (holding that website display of copyrighted photographs to internet subscribers was "public display"). Here, Video Pipeline allowed transmission of images of nonsequential scenes from a motion picture to occur over the internet and be made available to all members of the public, not just subscribers as in Playboy Enterprises. Thus, Video Pipeline's use of the copyrighted motion pictures allowed the display of its images to occur over the Internet in public and satisfies the definition of "public display."

The Court finds that because Video Pipeline's actions violate the exclusive rights of the copyright owner BVHE, plaintiff has infringed on BVHE's copyright. See 17 U.S.C. § 501. The next point of discussion concerns Video Pipeline's contention that, notwithstanding its violations of § 106, it is nevertheless protected by the First Sale Doctrine and the Fair Use Defense.

2. First Sale Doctrine

Video Pipeline argues that its actions of creating its own clip previews from those provided by BVHE and subsequently allowing customers of its retailer clients to view them online is protected by the First Sale Doctrine. The first sale doctrine, codified at 17 U.S.C. § 109(a), prevents the copyright owner from controlling future transfers of a particular copy of a copyrighted work after he has transferred its "material ownership" to another. Columbia Pictures v. Aveco, Inc., 800

F.2d 59, 63-64 (3d Cir. 1986) (citing Columbia Pictures Indus. v. Redd Horne, 749 F.2d 154, 159 (3d Cir. 1984)). Section 109(a) provides

> Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

17 U.S.C. § 109(a). "Section 109(a) is an extension of the principle that ownership of the material object is distinct from ownership of the copyright in this material." Redd Horne, 749 F.2d at 159 (citing 17 U.S.C. § 202). Under the first sale doctrine, the copyright owner cannot control the future transfer of a particular copy once its material ownership has been transferred. See Redd Horne, 749 F.2d at 159 (citations omitted).

Video Pipeline relies on Quality King Distribs. v. L'anza Research Int'l, 523 U.S. 135 (1998), for the proposition that from the retailer's right to resell its lawfully purchased copyrighted products must come the retailer's right to advertise and promote sales of the products without the copyright holder's consent. The Supreme Court in Quality King involved a California manufacturer that sold its copyrighted hair care products to a Malta distributor, which subsequently sold them to an importer, which imported the products back into the United States to be sold at lower prices than the California manufacturer. The Supreme Court held that the importer was entitled to the first sale defense in the copyright infringement action, stating that "[t]he whole point of the first sale doctrine is that once the copyright owner places the copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution." Quality King, 523 U.S. at 152.

Video Pipeline's reliance on Quality King is misplaced because it is not a retailer who has lawfully purchased copies of BVHE's product and therefore entitled to the protection afforded by the first sale doctrine. Rather, its clients, not Video Pipeline, are video retailers who may promote the sales or rentals of the products it has lawfully purchased from BVHE. Video Pipeline, in creating clip previews and providing an online service to its customer retailers, contends that the focus of this first sale analysis should more properly be placed on the actions of the retailers, arguing that the defenses afforded to its retailer customers should be transferred to it.

The Court agrees with BVHE that the actual nature of the relationship between Video Pipeline and its retailer customers is one of licensor and licensee, not one of agency. See Horovitz Aff. at Ex. 7. According to the agreement, the retailer customers are allowed access to previews provided by Video Pipeline either for "in-store use and/or internet point-of-sale promotional use." See id. Video Pipeline provides no support for the argument that one in a license agreement is entitled to the protection of the first sale doctrine defense that may be afforded to the other party.

That Video Pipeline may not stand in the shoes of its customers in asserting a defense is generally supported by Princeton Univ. Press v. Michigan Document Servs., 99 F.3d 1381, 1389 (6th Cir. 1996), cert. denied, 520 U.S. 1156 (1997), which rejected defendant copier's argument that its copying for "coursepacks" to be sold to university students would have been considered "non profit educational" if done by the students or professors themselves. The court held that the copy shop was not entitled to the "fair use" defense under 17 U.S.C. § 107(1) because "the copying complained of here was performed on a profit-making basis by a commercial enterprise [and] [t]he courts have . . . properly rejected attempts by for-profit users to stand in the shoes of their customers making nonprofit or noncommercial uses." Princeton Press, 99 F.3d at 1389 (citation

omitted). Although the discussion here focuses on the availability of the first sale doctrine to plaintiff, the principles are very similar. Here, the fact that Video Pipeline's retailer customers may advertise their lawfully bought copies of the copyrighted motion pictures does not absolve the fact that Video Pipeline profits from its actions in creating video previews and providing the online service to allow streaming of video previews. Similar to the copy shop in Princeton Press, Video Pipeline should not be able to hide behind the lawful actions and privileges extended to its retailer customers who have abided by the Copyright Act. See also Los Angeles News Serv. v. Tullo, 973 F.2d 791, 797 (9th Cir. 1992) (rejecting fair use defense based on defendants's clients' use for "research, scholarship and private study" because "the ultimate use to which the customer puts the tape is irrelevant").

Plaintiff's assertion that it should be entitled, as its retailer customers are, to the privilege of advertising video products, is addressed more appropriately within the confines of subsection (c) of § 109. Section 109(c), formerly subsection (b), provides:

> Notwithstanding the provisions of section 106(5), the owner of a particular copy lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to display that copy publicly, either directly or by the projection of no more than one image at a time, to viewers present at the place where the copy is located.

17 U.S.C. § 109(c). Congress stated that this subsection "deals with the scope of the copyright owner's exclusive right to control the public display of a particular 'copy' of a work." H.R. Rep. No. 94-1476, 94th Cong., 2d Sess. 79 (1976). Congress further explained the boundaries of the right granted to owners of a particular copy under § 106(5):

> [S]ection [109(c)] takes account of the potentialities of the new communications media, notably television, cable and optical transmission devices, and information storage and retrieval devices, for replacing printed copies with visual images. First of all, the public display of an image of a copyrighted work would not be exempted from copyright control if the copy from which the image was derived were outside the presence of the viewers. In other words, the display of a visual image of a copyrighted work would be an infringement if the image were transmitted by any method (by closed or open circuit television, for example, or by a computer system) from one place to members of the public located elsewhere.

Id. Although Congress was discussing the possibility of copyright infringement as it relates to a copy owner, its discussion of copyright infringement occurring as a result of computerized transmission is instructive here nonetheless. Under this provision, Congress intended for copyright infringement to occur when images of a copy of copyrighted work are displayed to members of the public located other than where the copy is located. By providing for this provision, Congress intended "to preserve the traditional privilege of the owner of a copy to display it directly, but to place reasonable restrictions on the ability to display it indirectly in such a way that the copyright owner's market for reproduction and distribution of copies would be affected." Id.

In this case, the transmittal of images of BVHE's copyrighted motion pictures to customers of retailer licensees of Video Pipeline, presents a markedly similar scenario envisioned by Congress, and therefore constitutes copyright infringement notwithstanding the retailer's right to display under § 106(5). Congress could have said that the transmission of copyrighted images to customers at a distant point of sale by electronic means is within the zone of use permitted by § 109(c), but it has

not done so. Thus, Video Pipeline's argument that it is entitled to the same scope of protection as its customer retailers further fails here due to the probable unavailability of the first sale doctrine defense to retailers who have the right to advertise their copies of copyrighted work, but are displaying images of their copyrighted materials at a distance over the Internet. Accordingly, Video Pipeline is not entitled to the protection of the first sale doctrine as provided in § 109 of the Copyright Act.

3. Fair Use Defense

Plaintiff Video Pipeline argues that it is entitled to the fair use defense. Fair use is a judicially-created defense that is now codified at § 107 of the Copyright Act. See Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 576-77 (1994). Congress intended for § 107 "to restate the present judicial doctrine of fair use, not to change, narrow, or enlarge it in any way." Campbell, 510 U.S. at 577 (citing H.R. Rep. No. 94-1476, p. 66 (1976)). The fair use defense confers a privilege on people other than the copyright owner, "to use the copyrighted material in a reasonable manner, without his consent, notwithstanding the monopoly granted to the owner." Marcus v. Rowley, 695 F.2d 1171, 1174 (9th Cir. 1983) (citing Rosemont Enters., Inc. v. Random House, Inc., 366 F.2d 303, 306 (2d Cir. 1966), cert. denied, 385 U.S. 1009 (1967)). The fair use doctrine is "an equitable rule of reason, which permits courts to avoid rigid application of the copyright statute when, on occasion, it would stifle the very creativity which that law is designed to foster." Stewart v. Abend, 495 U.S. 207, 236 (1990) (internal quotations omitted).

Section 107 provides, in part, that "[n]otwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work . . . for purposes such as criticism, comment, news reporting, teaching, . . . scholarship, or research, is not an infringement of copyright." 17 U.S.C. § 107. In determining whether the use of a work constitutes fair use, the factors to be

considered on a case-by-case analysis include:

> (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
> (2) the nature of the copyrighted work;
> (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
> (4) the effect of the use upon the potential market for or value for the copyrighted work.

17 U.S.C. § 107; see also Campbell, 510 U.S. at 577. All factors listed above are "to be explored, and the results weighed together, in light of the purposes of copyright." Campbell, 510 U.S. at 578 (citations omitted). Since fair use is an affirmative defense, the proponent, here the plaintiff, carries the burden of proof in demonstrating fair use. Campbell, 510 U.S. at 590 (citing Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 561 (1985); H.R. Rep. No. 102-836, p. 3 n.3 (1992)).

a. Purpose and Character of Use

The first factor in a fair use enquiry is "the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes." Campbell, 510 U.S. at 578; 17 U.S.C. § 107. The Supreme Court has stated

> The enquiry here may be guided by the examples given in the preamble to § 107, looking to whether the use is for criticism, or comment, or news reporting, and the like .... The central purpose of this determination is to see . . . whether and to what extent the new work is 'transformative.' Although such transformative use is not absolutely necessary for a finding of fair use, the goal of copyright, to promote science and the arts, is generally furthered by the creation of transformative works. Such works lie at the heart of the fair use doctrine's guarantee of breathing space within the confines of copyright, and the more transformative the new work, the less will be

> the significance of other factors, like commercialism, that may weigh against a finding of fair use.

Campbell, 510 U.S. at 578 (internal citations omitted).

The commercial or nonprofit educational character of a work is not conclusive, but is a fact to be "weighed along with other[s] in fair use decisions." Campbell, 510 U.S. at 585 (quoting Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417, 448-49 & n.32 (1984)). The fact that a work is commercial as opposed to nonprofit "is a separate factor that tends to weigh against a finding of fair use," but will not elevate it to hard presumptive significance. Campbell, 510 U.S. at 584-85. "The crux of the profit/nonprofit distinction is not whether the sole motive of the use is monetary gain but whether the user stands to profit from exploitation of the copyrighted material without paying the customary price." Harper & Row, 471 U.S. at 562 (citing Roy Export Co. Establishment v. Columbia Broad. Sys., Inc., 503 F. Supp. 1137, 1144 (S.D.N.Y. 1980), aff'd, 672 F.2d 1095 (1982)).

Video Pipeline argues in its post-hearing brief that its use of BVHE's motion pictures "is extraordinarily different from the use for which the footage was originally created." Pl.'s Post-Hearing Br. at 4. Video Pipeline further argues that "the character and purpose of VideoPipeline.net is not to be aesthetic, but to be comprehensive and functional in cataloging data and improving retailers' and consumers' access to previews on the Internet," id. at 5, relying on Kelly v. Arriba Soft Corp., 77 F. Supp. 2d 1116 (C.D. Cal. 1999), which has subsequently been affirmed in part and reversed in part. Kelly v. Arriba Soft Corp., 280 F.3d 934, 948 (9th Cir. 2002). The Kelly case involved the use by a visual search engine on the Internet of copyrighted photographs. The search engine had displayed the results of a user's query as a "thumbnail" image. By clicking on the "thumbnail" image, the user could then view a large version of

the picture within the context of the Arriba web page. The United States Court of Appeals for the Ninth Circuit held that the "thumbnail" image in Arriba's search engine constituted fair use, reasoning that while the use of the images was commercial, "Arriba was neither using [plaintiff's] images to directly promote its web site nor trying to profit by selling [the] images. Instead, [the] images were among thousands of images in Arriba's search engine database." Id. at 940-41. As for the transformative nature of the image, the court stated that "the thumbnails were much smaller, lower-resolution images that served an entirely different function than Kelly's original images. . . . Arriba's search engine functions as a tool to help index and improve access to images on the internet and their related web sites." Id. at 941. The Ninth Circuit held that Arriba's use of the copyrighted images as thumbnail images in its search engine constituted fair use, finding that the first factor weighed in Arriba's favor. The Ninth Circuit further held that Arriba's display of plaintiff's full-sized images did not constitute fair use, thereby reversing the district court. Under the first factor, the court stated that, unlike the use of images for the thumbnails which acted as a means to access information on the Internet, the images on Arriba's website did not have a purpose different from plaintiff's use of them, and concluded that "Arriba did not add new expression to the images to make them transformative [and] Arriba has not changed the purpose or character of the use of the images." Id. at 947.

The case at bar presents a much different situation than that presented in Arriba. The clip previews that Video Pipeline provides are formed and created exclusively from excerpts of BVHE's motion pictures. While the copyrighted pictures were significantly reduced to become "thumbnail" images in Arriba, nothing new is added or significantly changed to transform the clips here. Furthermore, the previews Video Pipeline provided involved no new creative ingenuity, apart from the snipping and slicing that undoubtedly occurred in selecting the excerpts to be

viewed, in order to excerpt about two minutes from a full-length motion picture.

The Court is not persuaded by plaintiff's contention that its use of defendant's motion pictures were "extraordinarily different" than the use for which the motion pictures were created. Plaintiff has created and placed clip previews on its website in order to be streamed by customers of its retailer clients. Such actions have the commercial purpose of advertising and promoting the video sales and rentals of the motion picture from which the excerpts were taken. Although plaintiff emphasizes that it served a functional purpose for its retailer clients, many of whom did not have the resources to create their own video previews,[2] the purpose of plaintiff's video previews are nevertheless to promote the video sales and rentals for profit. Plaintiff charged its retailer clients for providing access to and the streaming of the video previews on a per-megabyte basis. Although plaintiff maintains that the per-megabyte charges are a reflection of its expenses in providing services, the net result is that the longer a customer plays a video clip online, the more plaintiff receives as income from the retailer. Such an arrangement reflects that plaintiff's service is conducted on a for-profit basis. Plaintiff's notation that the total home video retail market is "almost $20 billion annually," Pl.'s

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[2]Whether Video Pipeline's previews were a necessity to retailers in promoting online video sales and rentals is questionable, considering the plausible alternatives of using still images or promotional previews specifically provided for by the motion picture distributors themselves, or creating a different type of preview clip that does lie within the fair use or first sale exceptions. The Court notes further that the lack of a video preview provided by the motion picture distributor indicates that the retailer would not be at a disadvantage in promoting the video sale or rental, as similarly no other retailer would likely be in possession of a video preview for that particular movie.

Br. at 2, underscores the importance of retailers to corner a part of the video retail market, and therefore the importance of the profit-making aspect that plaintiff would rather downplay to this Court. Plaintiff's participation in creating and providing its own clip previews, in conjunction with its other services, is nevertheless one part of the multi-billion dollar video retail market, made no less significant by plaintiff's characterization that it only "provide[d] a service to retailers [and] never market[ed] any products." Pl.'s Br. at 11.

Plaintiff further cites Triangle Publ'ns v. Knight-Ridder Newspapers, 626 F.2d 1171 (5th Cir. 1980), as support for the contention that fair use may be made of the very work being marketed by that retailer. Triangle Publications involved a competitor's use of the "TV Guide" logo in its advertisements. The Fifth Circuit noted that comparative advertisements are generally accepted in the advertising industry, and found that the fair use defense was applicable in this case, giving heavy emphasis to the fourth factor of effect of the use upon the potential market for the copyrighted work. As defendant BVHE points out, Triangle Publications involved elements of criticism and comment that Video Pipeline's video previews lacked. In other words, Video Pipeline's clip previews do not contain any critical commentary. Furthermore, the use of the "TV Guide" logos were limited to the covers of the magazine. This Court would predict that Video Pipeline's display of only the cover art from the movie video's package, for example, would lie within the fair use defense. That is not the case here.

In this case, under the first factor of purpose and character of use, the lack of transformative character of plaintiff's video previews and the for-profit purpose, for which the video previews were made and subsequently made available online, militate against the applicability of the fair use defense.

b. Nature of Copyrighted Work

The second factor "calls for recognition that some works are closer to the core of intended copyright protection than others, with the consequence that fair use is more difficult to establish when the former works are copied." Campbell, 510 U.S. at 586 (citations omitted). "The law generally recognizes a greater need to disseminate factual works than works of fiction or fantasy." Harper & Row, 471 U.S. at 563 (contrasting unpublished memoir with published speech) (citation omitted); see also Stewart, 495 U.S. at 237 ("In general, fair use is more likely to be found in factual works than in fictional works.").

Stewart involved the use of a copyrighted fictional magazine story as the basis for a motion picture. The Supreme Court in Stewart found that the case "presents a classic example of an unfair use: a commercial use of a fictional story that adversely affects the story owner's adaptation rights." Stewart, 495 U.S. at 238 ("[A]ll four factors point to unfair use."); see also Harper & Row, 471 U.S. at 563 ("[A]pplication of the fair use defense [is] greater . . . in the case of factual works than in the case of works of fiction or fantasy.").

This case also involves the use of copyrighted works of fiction, not fantasy. Unlike Stewart, Video Pipeline did not create a movie from a copyrighted story; rather, it used excerpts from the fictional motion pictures to create video trailers that in the end served the goal of advertising the movie for its client retailers. As the work here nevertheless involved creative, as opposed to factual, works, this second factor weighs against a finding of fair use. See also Lamb v. Starks, 949 F. Supp. 753, 757 (N.D. Cal. 1996) (finding that creative nature of 2 minute and 40 second movie trailer made from copyrighted motion picture weighed against finding of fair use).

Because the copyrighted works are of a fictional nature, the facts of this case do not weigh in favor of a fair use defense.

c. Amount and Substantiality of Portion Used

The third factor asks whether "the amount and substantiality of the portion used in relation to the copyrighted work as a whole . . . are reasonable in relation to the purpose of the copying." Campbell, 510 U.S. at 586 (internal citations omitted). As the Supreme Court recognized, "the extent of permissible copying varies with the purpose and character of the use." Id. at 586-87 (citing Sony, supra; 464 U.S. at 449-50 (home videotaping of entire television program "does not have its ordinary effect of militating against a finding of fair use")).

Plaintiff asserts that it uses a "minimal amount" of the movie, and that it does not use the "heart" of the movies, see Harper & Row, 471 U.S. at 565, that would militate against a finding of applicability of the fair use defense. Here, the length of the clip previews were usually less than two minutes, whereas the length of the actual motion pictures were approximately one and a half hours to two hours. A taking may not be justified merely because the amount used is small in comparison to the work as a whole, however. See, e.g., Harper & Row, 471 U.S. at 566 (300-word verbatim quotation from "heart of the book" containing 200,000 words was substantial); Meeropol v. Nizer, 560 F.2d 1061, 1070-71 (2d Cir. 1977) (verbatim reprinting of 28 copyrighted letters, representing less than 1% of infringing work, was substantial), cert. denied, 434 U.S. 1013 (1978); Lamb v. Starks, 949 F. Supp. 753, 757 (N.D. Cal. 1996) (copying of entire 2 minute 40-second trailer of 75-minute long movie favored finding of substantiality); Roy Export Co. Establishment of Vaduz, Liechtenstein, 503 F. Supp. 1137, 1145 (S.D.N.Y. 1980) (excerpts of less than 2 minute duration from copyrighted films could be deemed "quantitatively substantial"). In light of this, the clip previews' quantitative aspect must be viewed in conjunction with its qualitative value.

Video Pipeline's clip previews consist of the movie studio

logo, for example, "Walt Disney," followed by the title of the home video, perhaps "Snow White," approximately two scenes from the first half of the home video, and the title of the home video again. See Horovitz Aff. ¶ 32. A sampling of the clip previews does not demonstrate conclusively whether the excerpts taken reflect the "heart" of the movies, although the Court agrees with BVHE that the scenes, for the most part, were used to provide the potential customer with some idea of the plot of each motion picture, its overall tone, and a glimpse of its leading characters. A viewing of other video previews indicates that some of the previews may not have represented accurately the plot and overall tone of the movie. For example, the video preview of the motion picture Shanghai Noon represented the movie as a foreign language film with subtitles, the tone of which could be found similar to the drama The Last Emperor. See Hearing Tr. at 23-24. In reality, the movie was an East-meets-West action flick. See id.; Horovitz Aff. Ex. 7. Video Pipeline's product consists entirely of scenes from the copyrighted movies, preceded by images of the copyrighted logos. Furthermore, plaintiff relies on the expressive value of each video preview in representing and advertising the copyrighted work to potential customers, whether or not its depiction is accurate. Much as taking passages from the "heart" of a book may be used to demonstrate the essence of the copyrighted work, see Harper & Row, 471 U.S. at 564-65, so may an aggregation of scenes from a motion picture be a reflection of the general themes and tones which one may expect from viewing the entire movie. Indeed, it is designed and intended to be so, in order to apprise the customer of the overall premise. That the clip previews, composed entirely from scenes from the copyrighted movie, can depict no other readily identifiable piece of work, and are meant to do nothing other than that, weighs against the applicability of the fair use defense under this third factor.

From a merely quantitative standpoint, the use of the small

portions of the films weighs neither in favor of nor against a finding of a fair use defense. From a qualitative standpoint, however, because of the plaintiff's reliance on the expressive value of its previews in providing a description of the copyrighted motion pictures to potential customers, Video Pipeline's use of portions of the motion pictures weighs against a finding of the fair use defense.

d. Effect of the Use Upon Potential Market for Copyrighted Work

The fourth factor in determining fair use is "the effect of the use upon the potential market for or value of the copyrighted work." Campbell, 510 U.S. at 590 (citing 17 U.S.C. § 107(4)). This factor "requires the court to consider not only the extent of market harm caused by the particular actions of the alleged infringer, but also 'whether unrestricted and widespread conduct of the sort engaged by the [alleged infringer] . . . would result in a substantially adverse impact on the potential market' of the original." Campbell, 510 U.S. at 590 (citing Nimmer § 13.05[A][4], p. 13-102.61). The enquiry "must take account not only of the harm to the original but also of harm to the market for derivative works." Campbell, 510 U.S. at 590 (citing Harper & Row, 471 U.S. at 568 (referring to the rights in the copyrighted work, such as the adaptation and serial rights)). "Fair use, when properly applied, is limited to copying by others which does not materially impair the marketability of the work which is copied." Harper & Row, 471 U.S. at 566-67 (quoting 1 Nimmer § 1.10[D], at 1-87).

Under the fourth factor, the Court must determine whether plaintiff's use of the copyrighted work affects or materially impairs the marketability of the copyrighted motion pictures. Defendant BVHE argues that it has the right to determine how, when, and where to market its copyrighted motion pictures. Plaintiff argues in response that its services of providing video

previews online only "promote the market." Pl.'s Br. at 28. There is truth to both propositions. While Video Pipeline's creation of movie previews and allowing its availability online is intended to promote the video sales and rentals of the underlying copyrighted motion pictures, there is also the possibility that potential customers will be discouraged from purchasing or renting certain videos due to the depiction of the movie as provided by Video Pipeline's clip previews. As discussed above, the preview from Shanghai Noon provides one example where the potential customer would be provided with a depiction of a serious drama, rather than an expected selection of scenes highlighting the movie's action sequences. Moreover, the evidence that Video Pipeline's video previews are low in quality, as mentioned during the hearing held on this matter and observed in some of the actual clips in evidence, also suggests that the market for purchasing or renting the copyrighted motion pictures may be detrimentally affected. While some customers may attribute such flaws to the lack of ability of a particular computer to stream video previews, it is possible that others would attribute the lower quality to the film itself, and thereby discourage its ultimate purchase. Notwithstanding the possibility that the particular example mentioned above may be an anomaly, it is possible though far from certain that Video Pipeline's use of the copyrighted work in an inferior clip preview will affect the potential market for BVHE's copyrighted movies, specifically the video sales and rental market.

Video Pipeline's service of providing online previews to retailers' customers may also affect the marketability of the copyrighted motion pictures due to the retailers' competition with BVHE in online sales. Video Pipeline has agreements with 25 Internet home video wholesalers and retailers doing business on the Internet, such as Yahoo!Shopping, Netflix, TLA, and IMDB/Amazon, to provide them with promotional previews by means of its "VideoPipeline.net" service. Horovitz Aff. ¶¶ 17, 23. Both parties concede that BVHE and associated entities,

which operate Internet websites of their own where authentic trailers can be viewed, are in competition with home video retailers, some of whom are Video Pipeline's clients. Horovitz Aff. ¶ 38; Def.'s Br. at 22-23. While Video Pipeline's previews may attract customers to its retailers' websites and lead to increased purchasing, as they submit, such purchases would most likely detract from the sales of home videos on BVHE's official website.

It is clear to the Court that the original agreement between BVHE and Video Pipeline in 1988 provided for Video Pipeline's use of previews in retailers' in-store display only, not on the Internet. See Horovitz Aff. ¶ 5. That such an agreement did not provide for previews to be viewed in connection with online sales or rentals is telling, considering its possible foresight of the present situation of online competition between BVHE and retailer customers of Video Pipeline. Regardless of the original agreement between Video Pipeline and BVHE, the evidence indicates that the online video sales market is a multi-million, if not multi-billion, dollar industry. See Horovitz Aff. ¶ 13 ("[T]he total home video products retail market is almost $20 billion annually."); Kohler Aff. ¶ 6 (asserting that TLA Video's sales of home video products online are approximately $6 million annually and account for 30% of the company's annual gross revenue); Pl.'s Br. Ex. C. Video sales of a particular copyrighted motion picture on one retailer's website, with the help of Video Pipeline's promotional clips, would most certainly detract from possible video sales on BVHE's own Internet site.

On the other hand, the market for the copyrighted films may well be enhanced by Video Pipeline's clip previews, because they tend to promote the films to a broadened market of potential customers who find their way to the retailers' websites, and who might otherwise be unaware of, or unattracted to, the retail films. There is no evidence, one way or the other, of whether Video Pipeline's clip previews increase overall sales of the copyrighted works. Under the fourth factor, the Court finds that Video

Pipeline's previews have a potentially detrimental effect upon the market for the copyrighted works, but they also have a potentially beneficial effect since they are geared to promote sales of the copyrighted works, and this weighs neither for nor against the applicability of the fair use defense.

Video Pipeline argues that the infringing work, here the clip previews, has minimal effect on the market, primarily because they don't usurp the market for the original, citing On Davis v. The Gap, Inc., 246 F.3d 152, 175 (2d Cir. 2001), and because there is no market for previews alone, citing Meeropol v. Nizer, 560 F.2d 1061, 1069-70 (2d Cir. 1977), cert. denied, 434 U.S. 1013 (1978). The On Davis case involved an international retailer's use of a designer's copyrighted eyeglasses in its commercials. The Second Circuit held that the infringement was not a fair use, indicating under the fourth factor that the designer suffered market harm through his loss of royalty. Video Pipeline's literal reliance on the requirement that the use "usurp the market for the original" is misplaced. Here, the Second Circuit went on to explain that usurpation occurs "when the secondary uses harms the market for, or value of, the original." On Davis, 246 F.3d at 175. In the case at bar, it is likely that the previews Video Pipeline provides for its retailer customers may harm the market for the copyrighted motion picture, either due to the quality of the previews or because of its flawed representations.

Video Pipeline's reliance on Meeropol is also misplaced. The Second Circuit stated here that "[i]f the effect on the market by an infringing work is minimal, for example, far greater use may be privileged than where the market value of the copyrighted material is substantially decreased." Meeropol, 560 F.2d at 1069-70. The Second Circuit's statement does not mean that it relies solely on the effect of the market of an infringing work, but rather the effect of an infringing work on the market of a copyrighted work, explaining that "[a] key issue in fair use cases is whether the defendant's work tends to diminish or

prejudice the potential sale of plaintiff's work." Id. at 1070. The Court's focus here in looking at the effect of Video Pipeline's previews on the video sale and rental market for the underlying copyrighted motion pictures is thus appropriate.

Video Pipeline's contention that it has no obligation to present evidence showing lack of harm also is not supported by the case it cites, Leibovitz v. Paramount Pictures, Corp., 137 F.3d 109, 116 n.6 (2d Cir. 1998) (finding that balance of four factors favors fair use defense). Leibovitz involved an advertisement that parodied a copyrighted photograph of a well-known and widely published photographer. Under the fourth factor, the Second Circuit stated that Leibovitz "all but concedes that the . . . photograph did not interfere with any potential market for her photograph or for derivative works based upon it." Leibovitz, 137 F.3d at 116. In a situation where Leibovitz had not identified any market for a derivative work that might be harmed by the ad, the Second Circuit did not require a showing by defendants of lack of harm in a market for derivative works by defendant. Id. at 116 n.6. Here, BVHE has similarly set forth no argument that any market for a derivative work may be harmed by the Video Pipeline's services, a market for a derivative use being one that creators of original works would develop or license others to develop, see Campbell, 510 U.S. at 592. Rather, BVHE asserts that the video sales market for the original underlying copyrighted movie is being detrimentally harmed by Video Pipeline's streaming of clip previews. While Video Pipeline is correct in that it has no obligation to present evidence showing lack of harm in the market for trailers, whether one indeed exists or not, it does have an obligation to present evidence showing lack of harm in the market for the original copyrighted works. As discussed above, there is evidence demonstrating that retailer clients of Video Pipeline competed with BVHE in the online video sales market. However, it can be deduced that a Video Pipeline clip preview of a BVHE movie marketed through the websites of two dozen

Video Pipeline clients will tend to make the product more available to customers and increase overall sales, compared with the lack of such outlets. Upon the present record, the projected market loss or gain is equivocal, and the fourth factor is neutral.

Considering the four factors used in determining the applicability of the fair use defense, the Court finds that the first and third factors significantly weigh against the applicability of the fair use defense, while the second factor only slightly weighs against its applicability, and the fourth is neutral. Under the aggregate of these factors, the Court finds that Video Pipeline will not be entitled to the defense of fair use.

The Court finds that defendant BVHE has demonstrated, and plaintiff Video Pipeline has not refuted, that Video Pipeline has infringed upon BVHE's copyrighted motion pictures in creating and providing video previews online to be accessed by its retailer clients' customers. Video Pipeline has not demonstrated that it is not liable for copyright infringement due to the first sale doctrine under § 109 or the fair use defense under § 107. Accordingly, BVHE has demonstrated a prima facie case of copyright infringement, and has established a likelihood of success on the merits under the first prong of the preliminary injunction inquiry.[3]

B. Irreparable Harm to the Moving Party

BVHE asserts that it is being irreparably harmed by the continuing acts of BVHE's infringement. A copyright owner who establishes a prima facie case of infringement "is entitled to a preliminary injunction without a detailed showing of irreparable harm." Apple Computer, Inc. v. Franklin Computer Corp., 714 F.2d 1240, 1254 (3d Cir. 1983) (citing 3 Nimmer on

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[3]Because defendant establishes a prima facie case of copyright infringement and therefore demonstrates a likelihood of success on the merits, BVHE's trademark infringement argument need not be addressed here.

Copyright § 14.06[A], at 14-50 & n.16 (collecting authorities)), cert. dismissed, 1164 U.S. 1033 (1984). The Third Circuit states that the "prevailing view [is] that a showing of a prima facie case of copyright infringement or reasonable likelihood of success on the merits raises a presumption of irreparable harm." Apple Computer, 714 F.2d at 1254 (citing cases). Because BVHE has established a prima facie case of copyright infringement, it is entitled to a presumption of irreparable harm, thereby satisfying the second factor in determining whether a preliminary injunction shall issue.

C. Balancing of the Equities

Plaintiff Video Pipeline asserts that it will be irreparably harmed if an injunction were to issue, stating that a preliminary injunction would "remove many previews of home video products from retailers who own lawful copies of the home videos and prevent them from effectively marketing them for rental or sale." Pl.'s Br. at 34. A basic purpose behind the balancing of the equities analysis is to ensure that the issuance of an injunction would not harm the infringer more than a denial would harm the movant. See Opticians Ass'n of America v. Indep. Opticians of America, 920 F.2d 187, 197 (3d Cir. 1990) (citing ECRI v. McGraw-Hill, Inc., 809 F.2d 223, 226 (3d Cir. 1987)). At issue in this case are approximately 62 clip previews created and provided for online by Video Pipeline, as elucidated in the hearing held in this matter. See Hearing Tr. at 87:10. Plaintiff argues that an injunction will cause retailers, in need of previews to market their products, to discontinue doing business with Video Pipeline and to utilize services provided by Video Pipeline's competitors.

Whether an injunction will irreparably harm Video Pipeline in this case requires determining the impact of the loss of the 62 clip previews on Video Pipeline's business. Video Pipeline has agreements with approximately 25 Internet retailers to provide

their customers with the opportunity to view the promotional clip previews prior to purchasing any video product. Horovitz Aff. ¶ 23. While demonstrating that the 62 clip previews constitute a major portion of the previews that Video Pipeline contains in its catalogue would be significant support for Video Pipeline's argument that it would be driven out of business were an injunction to issue, Video Pipeline provides no such support. Plaintiff's supporting affidavits provide evidence regarding the video sales and rental market in general, and state that Video Pipeline has provided over 1 million promotion videos to retailers and wholesalers since 1985, but does not specify the breakdown into in-store promotional videos and online clip previews, which Video Pipeline began providing in 1997. Without specific information regarding the extensiveness of Video Pipeline's collection of clip previews for Internet use, and the loss that the 62 clip previews represents, it is unknown whether and to what extent Video Pipeline's overall business will be affected by the injunction. Considering, however, that Video Pipeline has provided over 1 million promotional preview videos to retailers and wholesalers since 1985, and thus has provided significant services prior to and unrelated to the services for Internet use, and undoubtedly provides services relating to hundreds if not thousands of titles not originating from BVHE and thus uninvolved here, it is extremely unlikely that the injunction of 62 clip previews will cause the company's demise.

Video Pipeline also argues that the injunction would harm independent retailers who have no resources to make their own movie previews and who must outsource this task to companies like Video Pipeline. As pointed out during the hearing in this matter, there is no third party representing the rights of retailers in this case. While their presence in this case is not necessary to consider the harm that may potentially occur to retailers, the additional arguments and nuances of their position would have painted a more complete picture for this Court. Ultimately,

Video Pipeline argues that major distributors, including BVHE and its parent company Disney, are trying to take over the retailing industry of its home videos. Whether this scenario will be played out in the future is unknown. Nevertheless, it is not this Court's duty to manage the course of the video retail market economy. If an injunction were to issue, it is true that a retailer may consequently have limited discretion in creating its advertising vehicles to promote its BVHE products, for example, by not being allowed to outsource certain video preview-making needs to companies like Video Pipeline. In that case, retailers may have to rely solely on the trailers that BVHE may have provided to all similarly situated retailers, or retailers may have to resort to descriptive narrations of storylines on the Internet, especially if BVHE has not provided any trailers to any retailers. There may be other combinations of images, short clips, criticism, description and creativity that would result in video trailers derived from copyrighted materials that would be within a fair use. The retailer also may be able to create and display in-house excerpts of copyrighted works to its customers at no cost and for the sole purpose of selling the underlying films within the parameters of the fair use and/or first sale doctrine. Though not ideal, these alternatives nevertheless exist. The present case does not adjudicate the works of any retailer, but rather it examines the clip previews at issue, which have been prepared and distributed for profit by a non-retailer without any significant creative expression being added.

Under the third factor in determining whether a preliminary injunction shall issue, the Court finds that the balancing of the equities does not weigh in Video Pipeline's favor.

D. Public Interest

Amici curiae Video Software Dealers Association and National Association of Recording Merchandisers argue that the public interest in receiving more knowledge about a movie prior

to purchase or rental weighs against movants, citing Orson, Inc. v. Miramax Film Corp., 189 F.3d 377, 384 (3d Cir. 1999), cert. denied, 529 U.S. 1012 (2000), and Allied Artist Picture Corp. v. Rhodes, 679 F.2d 656, 662 (6th Cir. 1982). Orson and Allied Artist commented on the unfair market practices that the Pennsylvania and Ohio statutes regulating motion picture licensing sought to ameliorate, including the marketing of a film prior to its completion and without offering exhibitors a chance to screen the final product. Orson, 189 F.3d at 384; Allied Artist, 679 F.2d at 662. Unlike Orson and Allied Artist, customers are not required to purchase a video not having seen it, although they may; neither are they required to watch a clip preview prior to purchasing. The situation in this case does not present the egregious marketing practices disapproved of in those cases. It is nevertheless understood that increased dissemination of information regarding a film's theme, plot, and characters likely serves the public interest. Enjoining the clip previews from being streamed online, however, will not deprive interested customers from access to comparable information, as such a search would lead to innumerable websites that provide detailed information regarding a particular movie's storyline, as the website for movant undoubtedly does.

Video Pipeline also argues that the public interest is not served due to BVHE's misuse of copyright to control retailer marketing and to control information available to consumers, citing Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488 (1942), which first recognized a misuse of patent defense. Copyright misuse has been recognized as a defense derived from patent misuse, as found in Morton Salt, in certain jurisdictions. See Lasercomb America, Inc. v. Reynolds, 911 F.2d 970, 976-77 (4th Cir. 1990); DSC Comms. Corp. v. DGI Techs., Inc., 81 F.3d 597, 601 (5th Cir. 1996); Practice Mgmt. Info. Corp. v. American Med. Assoc., 121 F.3d 516 (9th Cir.), cert. denied, 522 U.S. 933 (1997); see also In re Napster Copyright Litig., 61 U.S.P.Q. 2d 1877, 1887-91 (N.D. Cal. 2002). As the Fourth

Circuit stated, "The question is . . . whether the copyright is being used in a manner violative of the public policy embodied in the grant of a copyright." Lasercomb, 911 F.2d at 978. "However, generalized antitrust violations will not suffice." Napster, 61 U.S.P.Q. at 1891. Here, Video Pipeline must establish a "nexus between . . . alleged anti-competitive actions and [BVHE's] power over copyrighted material." Id. at 1891 (quoting Orth-O-Vision, Inc. v. Home Box Office, 474 F. Supp. 672, 686 (S.D.N.Y. 1979)).

The Napster case dealt with an action brought by major recording companies for copyright infringement against an Internet service that facilitated the downloading of plaintiffs' copyrighted works as "MP3" music files. Napster, the Internet service, alleged two bases for misuse: that the licensing clauses in the agreement with plaintiffs' joint venture in the digital distribution market, MusicNet, were unduly restrictive, and that plaintiffs' practices in entering the market for digital distribution of music were anti-competitive. The Napster court did not grant the defense, but allowed further discovery under Rule 56(f), Fed. R. Civ. P., to determine whether it applied. Whereas Napster dealt with allegations of a host of anti-competitive behaviors by the recording companies, including retail price squeezes, raising costs through licensing provisions, refusals to deal, and exclusive dealing, such anti-competitive actions are not alleged here such that this Court is compelled to allow further discovery. In addition, Lasercombe involved a finding of copyright misuse based on the competitor's overly restrictive language in a licensing agreement for computer software to control competition in computer-assisted die manufacture, an associated industry in which the parties were competing.

Though there are further distinctions with Napster and Lasercombe to be made, this case does not present a situation in which BVHE is attempting to control competition for an area that is outside the scope of its copyrighted works. Although Video Pipeline advances the argument that BVHE is attempting

to control the video retail market, it has not demonstrated how BVHE has engaged in egregious anti-competitive practices, such as overly restrictive clauses in the parties' agreements, that are outside the bounds of protection granted to it under the Copyright Act. As this Court found above, the clip previews at issue are "derivative works" of BVHE's copyrighted motion pictures, and such derivative works are well within the scope of the copyrighted works at issue. In seeking to enjoin further unauthorized use of Video Pipeline's clip previews, BVHE has not caused the video retail market to be impeded by restrictions that substantially undermine its vitality. As discussed above, a video retailer may be more limited in the ways it uses copyrighted works in its advertising, due to the protections of the copyright law, but its ability to sell and profit from BVHE's copyrighted works remains the same. Integral to the copyright misuse defense is the attempted use of copyright to suppress competition, and the absence of egregious anti-competitive practices that would give rise to a copyright misuse defense precludes its availability here.

Plaintiff Video Pipeline also makes the argument that BVHE's motion for preliminary injunctive relief would restrict the retailers' right of free expression under the First Amendment because truthful, non-misleading speech about products is protected under the First Amendment, and therefore any attempt to restrict such speech must pass strict scrutiny, relying on 44 Liquormart, Inc. v. Rhode Island, 517 U.S. 484, 485 (1996). Pl.'s Br. at 6. The Supreme Court has recognized the distinction between ideas, which the First Amendment protects, and the expression of those ideas, which the Copyright Act protects, stating that "First Amendment protections [are] already embodied in the Copyright Act's distinction between copyrightable expression and uncopyrightable facts and ideas . . . ." Harper & Row, 471 U.S. at 559-60 (noting that "[t]he essential thrust of the First Amendment is to prohibit improper restraints on the voluntary public expression of ideas," and that

"copyright . . . serve[s] this countervailing First Amendment value"). The Supreme Court agreed with the Second Circuit that "copyright's idea/expression dichotomy 'strike[s] a definitional balance between the First Amendment and the Copyright Act by permitting free communication of facts while still protecting an author's expression.'" Harper & Row, 471 U.S. at 556 (citing Harper & Row, Publishers, Inc. v. Nation Enters., 723 F.2d 195, 203 (2d Cir. 1983)). Copyright laws are thus not restrictions on speech, as "copyright laws, of course, protect only the form of expression and not the ideas expressed." New York Times Co. v United States, 403 U.S. 713, 726 n. (1971) (Brennan, J., concurring). Video Pipeline's reliance on 44 Liquormart, therefore, is misplaced. In that case, where the First Amendment's interaction with the Copyright Act was neither raised nor discussed, the Supreme Court held that Rhode Island's complete statutory ban on advertisements for alcohol abridged speech in violation of the First Amendment. 44 Liquormart, 517 U.S. at 505-07, 516. Its applicability to the case at bar, which deals with forms of expression under the Copyright Act, not the complete statutory ban of certain ideas, is therefore negligible.

The Court notes that the public interest is also served by upholding the rights of copyright owners, "[o]therwise, the rationale for protecting copyright, that of encouraging creativity, would be undermined." Apple Computer, 714 F.2d at 1254. The Third Circuit has explained:

> Since Congress has elected to grant certain exclusive rights to the owner of a copyright in a protected work, it is virtually axiomatic that the public interest can only be served by upholding copyright protections and, correspondingly, preventing the misappropriation of the skills, creative energies, and resources which are invested in the protected work. Apple Computer, 714 F.2d at 1254-55 (citing Klitzner Indus., Inc. v. H.K. James & Co., 535 F. Supp. 1249, 1259-60 (E.D. Pa. 1982)). Here, where creative energies, money,

and effort were undoubtedly put forth in these endeavors of full-length motion pictures, the public interest favors the protection of copyright, and the concomitant encouragement of individual creativity and ingenuity.

Considering the above four factors in determining whether a preliminary injunction shall issue, this Court finds that the likelihood of success on the merits, irreparable injury, and public interest factors weigh in movant BVHE's favor, with plaintiff Video Pipeline unable to demonstrate any irreparable injury that would result if an injunction were to issue. Accordingly, defendant BVHE's motion for a preliminary injunction will be granted.[4]

CONCLUSION

Accordingly, for the reasons discussed above, this Court will grant defendant BVHE's motion for a preliminary injunction. Plaintiff Video Pipeline will be enjoined from providing online streaming of the 62 clip previews at issue, and from creating and aggregating any further clip previews of defendant BVHE's copyrighted motion pictures to be streamed online for customers of its retailer clients. The accompanying Order for Preliminary Injunction is entered.

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[4]Pursuant to Rule 65(c), Fed. R. Civ. P., the Court requires the movants to post a bond in the amount of $50,000 not later than April 3, 2002, as a condition of this preliminary injunction.

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEW JERSEY

Civil No. 00-5236 (JBS)

VIDEO PIPELINE, INC.,

Plaintiff,

v.

BUENA VISTA HOME ENTERTAINMENT, INC.,

Defendant.

BUENA VISTA HOME ENTERTAINMENT, INC.,
and MIRAMAX FILM CORP.,

Counterclaim-Plaintiffs,

v.

VIDEO PIPELINE, INC.,

Counterclaim-Defendant.

ORDER FOR PRELIMINARY INJUNCTION

THIS MATTER having come before the Court upon motion for a preliminary injunction by counterclaim-plaintiffs Buena Vista Home Entertainment and Miramax Corp. (collectively "BVHE") against plaintiff/counterclaim-defendant Video Pipeline; and the Court having considered the parties' submissions and the submissions of amici curiae Video Software Dealers Association and National Association of Recording Merchandisers, and Motion Picture Association of America; and the Court having held an evidentiary hearing

on this matter; and good cause having been shown; and for reasons discussed in the Opinion of today's date constituting the Court's findings of fact and conclusions of law under Rules 52(a) and 65(d), Fed. R. Civ. P.;

IT IS on this ____ day of March, 2002, hereby

ORDERED that defendant BVHE's motion for a preliminary injunction [Docket Item 16-1] shall be, and hereby is, **GRANTED**; and it is

FURTHER ORDERED that plaintiff/counterclaim-defendant Video Pipeline, Inc., shall be, and hereby is, enjoined during the pendency of this action:

a. from creating, producing, or editing promotional previews or videoclip compilations derived from motion pictures or copyrighted material that is produced by, licensed to, owned by, manufactured by or distributed by BVHE or Miramax, including but not limited to the motion pictures and other Copyrighted Material listed in Exhibit G to the Answer to Supplemental and Amended Complaint and Amended Counterclaim; and

b. from reproducing, displaying, distributing, streaming, or performing on the Internet or otherwise, any promotional previews or videoclip compilations derived from the Copyrighted Material which Video Pipeline created, produced or edited itself, or received from any other source other than BVHE or Miramax; and

c. from using or displaying the trademarks "Walt Disney," "Touchstone," "Buena Vista," "Hollywood Pictures," or "Miramax," in connection with any promotional previews or videoclip compilations derived from the Copyrighted Material which Video Pipeline created, produced, or edited itself or received from any source other than BVHE or Miramax; and

IT IS FURTHER ORDERED that Video Pipeline shall within ten (10) days of today's date, remove from all servers and databases any and all copies of any of the above-described promotional previews or videotape compilations derived from the Copyrighted Material which Video Pipeline created, produced, or edited itself or received from any source other than BVHE or Miramax; and

IT IS FURTHER ORDERED that BVHE and Miramax post a bond in the amount of $50,000.00 on or before April 3, 2002, as a condition of the foregoing preliminary injunction.

JEROME B. SIMANDLE
United States District Judge